



Thembelihle Local Municipality  
Financial statements  
for the year ended 30 June 2016  
Auditor General of South Africa

# Thembelihle Local Municipality

(Registration number NC076)

Financial Statements for the year ended 30 June 2016

## General Information

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<b>Legal form of entity</b>	South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act (Act no 117 of 1998). Municipal demarcation code NC076
<b>Nature of business and principal activities</b>	Provision of Municipal services in terms of the Municipal Finance Management Act No.56 Of 2003 and Municipal Systems Act No.32 of 2000.
<b>Mayoral committee</b>	
Executive Mayor	Jonas, DA
Councillors	Madikane, SE Mpamba, B De Bruin, E Louw, P (Deceased) Kywe, A Humphreys, MA
<b>Grading of local authority</b>	The Thembelihle Municipality is a grade 1 Local Authority in terms of item IV of Government Notice R999 of 2 October 2001, published in terms of the Remuneration of Public Office Bearers Act, 1998.
<b>Accounting Officer</b>	Mogale, M
<b>Chief Finance Officer (CFO)</b>	Butterworth, G (resigned 31 March 2016) Sithole, B (Appointed 1 April 2016; resigned 30 June 2016)
<b>Registered office</b>	Municipal Offices Church street Hopetown 8750
<b>Business address</b>	Municipal Offices Church street Hopetown 8750
<b>Postal address</b>	Private Bag X3 Hopetown 8750
<b>Bankers</b>	Standard Bank Limited (Primary) ABSA Limited
<b>Auditors</b>	Auditor General of South Africa
<b>Attorneys</b>	Herman van Heerden Inc

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### **Abbreviations**

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
COGTA	Cooperative Governance and Traditional Affairs
IDP	Integrated Development Plan
DWAS	Department of Water Affairs and Sanitation

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## **Accounting Officer's Responsibilities and Approval**

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and was given unrestricted access to all financial records and related data.

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2017 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality's operations depend on a number sources of revenue ranging from National Government to its own sources and donations for continued funding of operations. The financial statements are prepared on the basis that the municipality is a going concern and that the Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's financial statements. The financial statements have been examined by the municipality's external auditors.

The financial statements set out on pages 5 to 91, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016 and were signed on its behalf by:



**Mr. M Mogale**  
**Accounting Officer**

# Thembelihle Local Municipality

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## Accounting Officer's Report

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The accounting officer submits his report for the year ended 30 June 2016.

### 1. Review of activities

#### Main business and operations

The municipality is engaged in provision of municipal services in terms of the municipal finance management act no.56 Of 2003 and municipal systems act no.32 of 2000. and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached financial statements and do not in our opinion require any further comment.

Net surplus of the municipality was R 5 345 788 (2015: surplus R 3 039 896).

#### Proportion of income and loss attributable to various classes of business:

##### 2016

Classes of business	Proportion of contribution to income before tax	Amount
Property Rates	4 %	3 137 037
Service Charges	28 %	19 942 097
Grants and Subsidies	64 %	44 687 189
Other	3 %	2 292 575

##### 2015

Classes of business	Proportion of contribution to income before tax	Amount
Property Rates	3 %	2 486 124
Service Charges	23 %	16 230 103
Grants and Subsidies	63 %	45 537 487
Other	11 %	8 015 964

### 2. Going concern

We draw attention to the fact that at 30 June 2016, the municipality had accumulated deficits of R 182 149 180 and that the municipality's total liabilities exceed its assets by R 182 149 180.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

The municipality still has the power to levy rates and taxes and it will continue to receive funding from government as evident from the equitable share allocation in terms of the Division of Revenue Act of 2016.

### 3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

### 4. Accounting Officer's interest in contracts

The accounting officer had no interest in contracts during the year.

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## Accounting Officer's Report

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### 5. Accounting policies

The financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practices (GRAP), including any interpretations and directives issued by the Accounting Standards Board and in accordance with section 122 (3) of the Municipal Financial Management Act, (Act No. 56 of 2003).

### 6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality
Mr.M Mogale	South African

### 7. Corporate governance

#### General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2002. The accounting officer discuss the responsibilities of management in this respect, at Council meetings and monitor the municipality's compliance with the code on a three monthly basis.

The salient features of the municipality's adoption of the Code is outlined below:

#### Council

The Council:

- ☞ retains full control over the municipality, its plans and strategy;
- ☞ acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the municipality;

#### Remuneration

The upper limits of the remuneration of the councillors, are determined in terms of the Government Notices issued by the Minister of Co-operative Governance and Traditional Affairs, as required of him by the Remunerations of Public Office Bearers Act No.20 of 1998.

#### Committee meetings

The accounting officer meets on a regular basis with the Mayor and Chairpersons of Portfolio Committees.

Portfolio Committee Chairpersons have access to all members of management (Section 57 Managers) of the municipality.

#### Internal audit

The municipality has a shared internal audit function based at the district municipality (as highlighted above). This is in compliance with the Municipal Finance Management Act, 2003.

### 8. Bankers

The municipality's primary banker is Standard Bank Limited.

The municipality also have accounts with ABSA Limited.

### 9. Auditors

Auditor General of South Africa will continue in office for the next financial period.

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### **Accounting Officer's Report**

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#### **10. Non compliance with applicable legislation**

**The following non-compliances to the Municipal Finance Management Act occurred:**

1) Paragraph 165 & 166 - No audit committee exists within the Municipality. The Municipality's internal audit functions were outsourced and performed by Pixley Ka Seme.

2) Section 32 -Investigations have not been performed with regards to unauthorised, fruitless and wasteful or irregular expenditure during the 2014/2015 year relating to the amounts disclosed in the 2013/2014 financial year and neither have the report as required been submitted.

3) Paragraph 62 -Irregular, fruitless and wasteful and unauthorised expenditure occurred for the 2015-2016 financial year.

4) Section 63 -The municipality does not have an approved Road Maintenance Plan in place.

5) Section 65 – The majority of suppliers were not paid within the 30 day requirement per the MFMA. This was due to cash constraints experienced by the Municipality.



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## **Accounting Officer's Report**

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6) Section 62 - A lack of proper record keeping and document control was experienced at the Municipality. Systems are being implemented to improve this situation at the Municipality.

7) Chapter 8 - The adjustments budget was not made public within 10 days as confirmed upon inspection of the website printout as it was dated the 3 August 2015 and it was approved on the 28 February 2015.

The monthly budget statements did not include and explain:

(i) any material variances from the municipality's projected revenue by source, and from the municipality's expenditure projections per vote;

(ii) any material variances from the service delivery and budget implementation plan; and

(iii) any remedial or corrective steps taken or to be taken to ensure that projected revenue and expenditure remain within the municipality's approved budget

8) Section 62 - The municipality did not have code of ethical conduct signed by the municipality staff. No reports are submitted within 10 days after the end of each quarter, on the implementation of the SCM policy to the mayor of the municipality. The municipality does not have a gift declaration register and policy in place. There are no properly implemented controls for vendor acceptance to prevent and detect fictitious providers.

9) The municipality does not have a disciplinary board to investigate allegations of financial misconduct; and monitor the institution of disciplinary proceedings against an alleged transgressor.

10) Section 83 - No assessment evaluation for competencies were performed for the following key positions: CFO, Municipal Manager, Corporate services manager and Technical services manager.

11) Section 62 - The Municipality does not have a written policy or procedure to identify Subsequent events (events after reporting date), approved for the 2015/2016 financial year.

12) Paragraph 127 - The Annual report was not tabled for the 2013/14 financial period. The annual performance report was not prepared and submitted for the audit.

13) Paragraph 14 - Background, qualifications and reference checks were not performed on all officials working at the Municipality.

14) Section 62 - No controls were in place to ensure discrepancies in the overtime paid out are detected and corrected.

### **The following non-compliances to the Municipal structures act occurred:**

1) Section 79 - IT, Finance & Budget and HR committees were not established.

### **The following non-compliances to the Basic Conditions of Employment Act occurred:**

1) There is no control in place to ensure that overtime is in accordance with Section 62 of MFMA and Basic Conditions of Employment Act section 10 (1) (b) chapter 2.

2) Not all employees took the minimum of 16 day leave during the financial period.

3) There insufficient controls over leave management within the municipality. This has however been addressed and proper controls have been implemented over the approval of leave. A leave system has also been implemented to support the controls implemented.

4) Acting allowances were paid for periods exceeding 6 months.

### **The following non-compliances to the Municipal Systems Act occurred:**

1) Paragraph 5A - Declarations of interest for all section 56 members and Municipal Manager was only submitted on the 30th of August 2016, which was not within 60 days of appointment.

2) Section 25 - Planned objectives included in the integrated development plan were not consistent with the service delivery and budget implementation plan. Planned objectives specified in the service delivery and budget implementation plan for the year under review were not aligned with the integrated development plan submitted for audit purposes. Per the SDBIP it can be concluded that there is 5 overall objectives. Per the IDP it was confirmed that there is 10 overall objectives.

3) Section 25 - Budgets were not allocated to each individual objective in the SDBIP

4) Section 25 - There was no sufficient correlation between the IDP and Annual Budget.

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5) The indicators in IDP for the 2015/2016 financial period were inspected and it was confirmed that there is a total budget and there is a projection for the next three years. The budget also states the financial resources available for capital expenditure. It was not evident from the information provided if the projection includes a financial strategy that defines sound financial management and expenditure control as well as means of increasing revenues and external funding for the municipality and its development priorities and objectives. Consequently the approved budget cannot be tied up to the 10 strategic objectives. The objectives as per the SDBIP can also not be linked to a budget per objective.

### **The following non-compliances to the Municipal Property Rates Act occurred:**

1) The valuation roll was inspected and the following was noted: The valuation roll was not updated annually and the valuation roll is not compiled in accordance with the Municipality Property Rates Act, in that the valuation roll does not include two sections where part A consists of the current valuation roll of the municipality, including any supplementary valuation rolls of the Municipality prepared in terms of Section 78 and Part B specify which properties on the valuation roll or any supplementary valuation rolls are subject to exceptions, rebates, phasing in of rates are specified. A new valuation roll has been compiled that was implemented in July 2015.

### **The following non-compliances to the budget and reporting regulations occurred:**

1) The adjustments budget was not made public within 10 days as confirmed upon inspection of the website printout as it was dated the xx March 2016 and it was approved on the 28 February 2016.

2) The monthly budget statements did not include an explanation for:

- i) any material variances from the municipality's projected revenue by source, and from the municipality's expenditure projections per vote
- ii) any material variances from the service delivery and budget implementation plan; and
- iii) any remedial or corrective steps taken or to be taken to ensure that projected revenue and expenditure remain within the municipality's approved budget.

### **The following non-compliances to the Division of Revenue Act occurred:**

1) The Municipality did not submit a quarterly non-financial performance report within 30 days after the end of each quarter to the transferring national officer and the relevant provincial treasury.

2) No section 12(5) reports have been completed for MIG, MSIG and FMG.

### **The following non-compliances to the VAT act occurred:**

1) The VAT 201 for December 2015 till March 2016 was not submitted and paid within 25 days of the following month of the VAT month period.

### **The following non-compliances to Regulations on the Predetermined Objectives occurred:**

1) The plan provided was a financial recovery plan which is similar to a financial strategy but it is not included in the integrated development plan. Thus it can be concluded that the integrated development plan did not include a financial strategy.

2) No information has been obtained with regards to ward committees.

3) The IDP had no organogram for the implementation of the IDP which addresses the municipality's internal transformation.

4) There is no evidence of a development framework which includes the provision of basic guidelines for the land use management system.

5) There was no evidence of an approved disaster management plan being included in the IDP.

6) There was no evidence to support that the municipality drafted its IDP taking into account the integrated development processes of and proposals submitted to it by the district municipality.

7) The municipal manager did not submit a copy of the IDP as adopted by council of the municipality, and any subsequent amendment to the plan, to the MEC for local government in the province within 10 working days of the adoption or amendment of the plan. The IDP was adopted on the 30/06/2015 and the submission to the MEC was dated the 18/08/2015.

8) The municipality prepared a SDBIP which indicated the projections of revenue to be collected and operational and capital expenditure for each quarter, and not each month.

9) The SDBIP does not contain clear, measurable service delivery targets.

10) There is no evidence of the SDBIP being revised and the revision approved after the approval of the adjustments budget.

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- 11) There was no evidence to support that the annual budget was accompanied by measurable performance objectives for revenue from each source and for each vote in the budget.
- 12) There was no evidence supporting the annual review of the IDP and any proposed amendments.
- 13) There was no evidence supporting that particulars of service delivery agreements accompanied the annual budget when it was tabled.
- 14) There was no evidence of any resolutions, that approve measurable performance objectives for revenue, being adopted - when the SDBIP was tabled.
- 15) The SDBIP was sent to Provincial Treasury, however the date was the September 2015 and the SDBIP was approved on the May 2016. Thus the SDBIP was not sent to Treasury within 10 working days.
- 16) The municipal manager did not make public the approved adjustment budget and supporting documentation, as well as resolutions within 10 working days after the council approved the adjustment as the adjustments budget was approved on the 29 February 2016 but was only loaded on the system on the 29 March 2016.
- 17) No evidence was found to show that roles and responsibilities for ensuring data integrity and quality assurance were clear, documented and communicated to all relevant staff.
- 18) No information was provided with regards to the risk assessment process.
- 19) The municipality does not have any data assurance procedures in place such as data collection, processing and monitoring procedures.
- 20) There was no evidence to support that the annual budget was accompanied by measurable performance objectives for revenue from each source and for each vote in the budget.
- 21) There was no evidence of any resolutions, that approve measurable performance objectives for revenue, being adopted - when the SDBIP was tabled.
- 22) The municipal manager did not submit to the National Treasury and relevant provincial treasury, the mid-year performance assessment by 25 January of each year as it was sent on the February 2016.
- 23) There is no evidence that that the mid-year assessment report included material variances to the SDBIP.
- 24) There was no evidence to support the fact that roles and responsibilities for collecting, coordinating and compiling performance information were clear, documented and communicated to all relevant staff.
- 25) The municipality does not have specific and appropriate information systems to enable the entity to monitor the progress made towards achieving the goals, targets and core objectives as indicated in the strategic plan.
- 26) The municipality does not have any valid mechanisms, systems and processes for the monitoring, measurement and review of performance.
- 27) There was no evidence that the annual performance agreements for the municipal manager and all senior managers are linked to measurable performance objectives approved with the budget and to the SDBIP.
- 28) No performance appraisals completed for any official working at the municipality.
- 29) The Annual Performance report for the 2015/2016 year has not been prepared and submitted for audit.

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### **Accounting Officer's Report**

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**With regards to the provision of water and sanitation the following occurred:**

- 1) Water projects in progress in 2015-16 does not address the cause of the water backlog. We are of the view that a channel should be constructed between Hopetown and Strydenburg, but the Department of Water and Sanitation does not support this view and will thus not make funds available for this project.
- 2) Thembelihle Bulk Water Supply : Strydenburg Ground Water Development water infrastructure project have exceeded their planned completion date as the planned due date was 30 June 2015 and was extended to 15 December 2015.
- 3) The municipality does not have an approved policy in place that addresses routine maintenance of water infrastructure.
- 4) Maintenance of water infrastructure was not budgeted for by the municipality.
- 5) The municipality has not reported on backlogs in the provisioning of functional water services to households.
- 6) The municipality does not have sufficient water infrastructure to meet the needs of the municipality as there has been backlogs in the provisioning of functional water services due to lack of funding, high percentage of indigents.
- 7) Appropriate steps to prevent overspending of the budget allocation for routine water infrastructure maintenance was not taken.

# Thembelihle Local Municipality

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## Statement of Financial Position as at 30 June 2016

Figures in Rand	Note(s)	2016	2015
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	3	48 895	1 641
Receivables from exchange transactions	4&7	3 544 479	2 425 254
Receivables from non-exchange transactions	5&7	3 705 441	3 543 284
VAT receivable	18	4 668 324	-
Prepayments		17 460	17 460
Other Receivables	8	671 117	671 117
Cash and cash equivalents	9	3 260 992	722 538
		<b>15 916 708</b>	<b>7 381 294</b>
<b>Non-Current Assets</b>			
Investment property	10	7 675 033	7 729 100
Property, plant and equipment	11	230 614 022	221 339 162
Intangible assets	12	268 968	318 534
Non-Current Receivables from Exchange Transactions	13	456 641	455 117
		<b>239 014 664</b>	<b>229 841 913</b>
<b>Total Assets</b>		<b>254 931 372</b>	<b>237 223 207</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Loans payable	14	893 834	488 610
Finance lease obligation	15	19 149	674 495
Payables from exchange transactions	16	51 400 107	33 262 598
VAT payable	17	-	111 760
Consumer deposits	19	522 760	474 099
Employee benefit obligation	20	217 968	165 624
Unspent conditional grants and receipts	21	1 389 682	6 785 456
Provisions	22	7 844 900	7 532 099
Third Party Collections	23	1 261 358	1 261 378
Long Service Awards	24	245 541	108 722
		<b>63 795 299</b>	<b>50 864 841</b>
<b>Non-Current Liabilities</b>			
Loans payable	14	3 817 470	4 788 807
Finance lease obligation	15	214	19 364
Employee benefit obligation	20	4 280 259	3 857 853
Long Service Awards	24	888 950	888 950
		<b>8 986 893</b>	<b>9 554 974</b>
<b>Total Liabilities</b>		<b>72 782 192</b>	<b>60 419 815</b>
<b>Net Assets</b>		<b>182 149 180</b>	<b>176 803 392</b>
Accumulated surplus		<b>182 149 180</b>	<b>176 803 392</b>

# Thembelihle Local Municipality

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## Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	26	19 939 730	16 230 103
Rental of facilities and equipment	27	834 606	433 232
Interest received	28	179 674	807 643
Licences and permits	29	57 446	20 358
Administration and management fees received		1	1
Commissions received		4 894	391 317
Discount received		1 343 155	458 676
Other income	32	240 099	602 695
Connection fees	33	84 055	74 796
Interest received	28	368 613	390 984
<b>Total revenue from exchange transactions</b>		<b>23 052 273</b>	<b>19 409 805</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	34	3 137 037	2 486 124
Licences or Permits (Non-exchange)	29	225 384	192 720
Informal Settlement rates		198 362	112 539
<b>Transfer revenue</b>			
Government grants & subsidies	35	49 496 402	45 537 487
Fines, Penalties and Forfeits	36	620 345	3 879 093
<b>Total revenue from non-exchange transactions</b>		<b>53 677 530</b>	<b>52 207 963</b>
<b>Total revenue</b>	25	<b>76 729 803</b>	<b>71 617 768</b>
<b>Expenditure</b>			
Employee related costs	37	(23 279 478)	(22 187 621)
Remuneration of councillors	38	(2 524 362)	(2 498 053)
Administration	39	(26 093)	(14 587)
Depreciation and amortisation	40	(8 142 078)	(8 874 622)
Finance costs	41	(5 544 196)	(3 611 100)
Lease rentals on operating lease		(67 648)	(17 520)
Debt Impairment	6	(1 515 802)	(6 689 570)
Repairs and maintenance	43	(562 516)	(1 191 139)
Bulk purchases	44	(11 805 195)	(10 372 009)
Contracted services	45	(50 731)	(91 531)
General Expenses	46	(17 713 597)	(13 477 291)
<b>Total expenditure</b>		<b>(71 231 696)</b>	<b>(69 025 043)</b>
<b>Operating surplus</b>		<b>5 498 107</b>	<b>2 592 725</b>
Gain/ (loss) on disposal of assets and liabilities		(235 163)	(192 614)
Fair value adjustments	10&47	127 233	651 910
Actuarial gains/losses	20	(44 389)	(85 568)
		<b>(152 319)</b>	<b>373 728</b>
<b>Surplus for the year</b>		<b>5 345 788</b>	<b>2 966 453</b>

# Thembelihle Local Municipality

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## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
<b>Balance at 01 July 2014</b>	<b>174 395 955</b>	<b>174 395 955</b>
Changes in net assets		
Reclassification	1 539	1 539
Net income (losses) recognised directly in net assets	1 539	1 539
Surplus for the year	2 966 453	2 966 453
Total recognised income and expenses for the year	2 967 992	2 967 992
Total changes	2 967 992	2 967 992
Opening balance as previously reported	176 819 778	176 819 778
Adjustments		
Prior year adjustments	(16 386)	(16 386)
<b>Balance at 01 July 2015 as restated*</b>	<b>176 803 392</b>	<b>176 803 392</b>
Changes in net assets		
Surplus for the year	5 345 788	5 345 788
Total changes	5 345 788	5 345 788
<b>Balance at 30 June 2016</b>	<b>182 149 180</b>	<b>182 149 180</b>

# Thembelihle Local Municipality

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Financial Statements for the year ended 30 June 2016

## Cash Flow Statement

Figures in Rand	Note(s)	2016	2015
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		24 207 765	13 436 370
Grants		44 100 628	37 666 420
Interest income		179 674	390 984
Fines		-	470 570
Other receipts		-	677 492
		<u>68 488 067</u>	<u>52 641 836</u>
<b>Payments</b>			
Employee costs		(25 025 076)	(25 045 674)
Suppliers		(16 718 499)	(10 683 661)
Finance costs		(5 544 196)	(3 512 463)
		<u>(47 287 771)</u>	<u>(39 241 798)</u>
<b>Net cash flows from operating activities</b>	<b>48</b>	<b><u>21 200 296</u></b>	<b><u>13 400 038</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	11	(17 360 462)	(20 607 772)
Proceeds from sale of property, plant and equipment	11	3 069	-
Purchase of other intangible assets	12	(63 840)	(6 560)
Purchase of non-current receivables from exchange transactions		-	(16 558)
<b>Net cash flows from investing activities</b>		<b><u>(17 421 233)</u></b>	<b><u>(20 630 890)</u></b>
<b>Cash flows from financing activities</b>			
Finance payments		(674 496)	(1 044 440)
Net Movement in long term receivables		(566 113)	-
<b>Net cash flows from financing activities</b>		<b><u>(1 240 609)</u></b>	<b><u>(1 044 440)</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>2 538 454</b>	<b>(8 140 259)</b>
Cash and cash equivalents at the beginning of the year		722 538	8 862 798
<b>Cash and cash equivalents at the end of the year</b>	<b>9</b>	<b><u>3 260 992</u></b>	<b><u>722 539</u></b>



# Thembelihle Local Municipality

(Registration number NC076)

Financial Statements for the year ended 30 June 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue by source</b>						
Property rates	4 964 568	(1 471 441)	3 493 127	3 719 649	226 522	
Service charges	20 876 418	-	20 876 418	-	(20 876 418)	Load shedding had an effect on the Electricity billed for the year that was not considered in the budget.
Rental of facilities and equipment	546 850	-	546 850	834 606	287 756	When the budget was compiled an expected increase was taken into account that did not materialise.
Interest received - outstanding debtors	1 393 147	(2 242 180)	(849 033)	179 674	1 028 707	More debtors receipts were obtained which meant less interest charges.
Licences and permits	195 000	(195 146)	(146)	57 446	57 592	
Administration and management fees received	177	(352)	(175)	1	176	
Commissions received	47 700	304 600	352 300	4 894	(347 406)	
Discount received	-	-	-	1 343 155	1 343 155	
Transfers recognised - operational	41 316 000	(41 316 000)	-	-	-	
Fines	17 720	(17 720)	-	-	-	
Other revenue	512 000	(475 177)	36 823	240 099	203 276	
Other farming income 1	42 930	(45 742)	(2 812)	84 055	86 867	
Interest received - investment	319 424	(326 198)	(6 774)	368 613	375 387	Larger utilisation of investment accounts than expected.
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>70 231 934</b>	<b>(45 785 356)</b>	<b>24 446 578</b>	<b>6 832 192</b>	<b>(17 614 386)</b>	

# Thembelihle Local Municipality

(Registration number NC076)

Financial Statements for the year ended 30 June 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	4 080 610	(3 953 767)	126 843	3 137 037	3 010 194	Expected errors to be shown on the rates reconciliation that did not materialise.
Licences or Permits (Non-exchange)	163 982	(111 560)	52 422	225 384	172 962	
Other taxation revenue 1	159 000	(138 294)	20 706	198 362	177 656	
<b>Transfer revenue</b>						
Government grants & subsidies	42 587 306	(43 843 876)	(1 256 570)	49 496 402	50 752 972	Grant income is determined by the DORA allocation. Large increase in MIG related expenditures. Treasury's contribution to the Auditor General's outstanding account.
Fines, Penalties and Forfeits	4 787 720	(4 734 240)	53 480	620 345	566 865	Service provider for Traffic fines was appointed later than expected.
<b>Total revenue from non-exchange transactions</b>	<b>51 778 618</b>	<b>(52 781 737)</b>	<b>(1 003 119)</b>	<b>53 677 530</b>	<b>54 680 649</b>	
<b>Total revenue</b>	<b>122 010 552</b>	<b>(98 567 093)</b>	<b>23 443 459</b>	<b>60 509 722</b>	<b>37 066 263</b>	
<b>Expenditure by type</b>						
Employee costs	(21 976 000)	22 769 704	793 704	(23 279 478)	(24 073 182)	Upgrading & New Appointments.
Remuneration of councillors	(2 808 000)	2 642 070	(165 930)	(2 524 362)	(2 358 432)	
Debt impairment	(2 400 000)	2 452 189	52 189	(26 093)	(78 282)	
Depreciation & asset impairment	(9 586 000)	10 200 855	614 855	(8 142 078)	(8 756 933)	Budget based on prior period audited depreciation and was adjusted with the current year's asset register.

# Thembelihle Local Municipality

(Registration number NC076)

Financial Statements for the year ended 30 June 2016

## Statement of Comparison of Budget and Actual Amounts

### Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Finance charges	(685 000)	(132 255)	(817 255)	(5 544 196)	(4 726 941)	Landfill site provision increase due to immediate closure requirements. Eskom increased interest charges on outstanding account.
Lease rentals on operating lease	(463 818)	485 447	21 629	(67 648)	(89 277)	
Bad debts written off	(2 400 000)	(12 320 000)	(14 720 000)	(1 515 802)	13 204 198	Increase in debtors collection was not expected.
Other materials	(1 095 000)	933 857	(161 143)	(562 516)	(401 373)	Budget was based on cashflow payments towards repairs & Maintenance. Actuals include creditors transactions.
Bulk purchases	(11 051 000)	9 739 588	(1 311 412)	(11 805 195)	(10 493 783)	Budget was based on cashflow payments towards repairs & Maintenance. Actuals include creditors transactions.
Contracted Services	(171 000)	439 712	268 712	(50 731)	(319 443)	
Transfers and Subsidies	(1 408 000)	1 408 000	-	-	-	
Other expenditure	(13 199 000)	15 981 961	2 782 961	(17 713 597)	(20 496 558)	Budget was based on cashflow payments towardsexpenditures. Actuals include creditors transactions.
<b>Total expenditure</b>	<b>(67 242 818)</b>	<b>54 601 128</b>	<b>(12 641 690)</b>	<b>(71 231 696)</b>	<b>(58 590 006)</b>	
<b>Operating deficit</b>	<b>54 767 734</b>	<b>(43 965 965)</b>	<b>10 801 769</b>	<b>(10 721 974)</b>	<b>(21 523 743)</b>	
Loss on disposal of assets and liabilities	5 300 000	(5 300 000)	-	(235 163)	(235 163)	
Fair value adjustments	-	-	-	127 233	127 233	
Actuarial gains/losses	958 611	(2 004 167)	(1 045 556)	(44 389)	1 001 167	

## Thembelihle Local Municipality

(Registration number NC076)

Financial Statements for the year ended 30 June 2016

### Statement of Comparison of Budget and Actual Amounts

#### Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
	6 258 611	(7 304 167)	(1 045 556)	(152 319)	893 237	
Surplus / (Deficit) for the year	61 026 345	(51 270 132)	9 756 213	(10 874 293)	(20 630 506)	

## Thembelihle Local Municipality

(Registration number NC076)

Financial Statements for the year ended 30 June 2016

### Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

#### Statement of Financial Position

##### Assets

##### Current Assets

VAT receivable

-	-	-	4 668 324	4 668 324
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Total Assets

-	-	-	251 459 394	251 459 394
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##### Liabilities

Total Liabilities

-	-	-	72 782 187	72 782 187
---	---	---	------------	------------

##### Net Assets

Net Assets Attributable to  
Owners of Controlling Entity

Undefined Difference

1 419 127	12 419 427	13 838 554	(3 471 977)	(17 310 531)
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## **Thembelihle Local Municipality**

(Registration number NC076)

Financial Statements for the year ended 30 June 2016

### **Statement of Comparison of Budget and Actual Amounts**

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						

**Cash Flow Statement**

# Thembelihle Local Municipality

(Registration number NC076)

Financial Statements for the year ended 30 June 2016

## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments	Shifting of funds (i.t.o. MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>2016</b>											
<b>Financial Performance</b>											
Property rates	4 220 000	(4 093 157)	126 843	-	-	126 843	3 137 037		3 010 194	2 473 %	74 %
Service charges	20 633 000	(19 577 173)	1 055 827	-	-	1 055 827	19 939 730		18 883 903	1 889 %	97 %
Investment revenue	318 000	(324 774)	(6 774)	-	-	(6 774)	368 613		375 387	(5 442)%	116 %
Transfers recognised - operational	24 059 000	(24 080 133)	(21 133)	-	-	(21 133)	23 051 951		23 073 084	109 080)%	96 %
Other own revenue	7 428 000	(7 550 910)	(122 910)	-	-	(122 910)	3 689 870		3 812 780	(3 002)%	50 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>56 658 000</b>	<b>(55 626 147)</b>	<b>1 031 853</b>	-	-	<b>1 031 853</b>	<b>50 187 201</b>		<b>49 155 348</b>	<b>4 864 %</b>	<b>89 %</b>
Employee costs	(21 976 000)	22 769 704	793 704	-	-	793 704	(23 279 478)		(24 073 182)	(2 933)%	106 %
Remuneration of councillors	(2 808 000)	2 642 070	(165 930)	-	-	(165 930)	(2 524 362)		(2 358 432)	1 521 %	90 %
Debt impairment	(2 400 000)	(12 320 000)	(14 720 000)			(14 720 000)	(1 515 802)		13 204 198	10 %	63 %
Depreciation and asset impairment	(9 586 000)	10 200 855	614 855			614 855	(8 142 078)		(8 756 933)	(1 324)%	85 %
Finance charges	(685 000)	(132 255)	(817 255)	-	-	(817 255)	(5 544 196)		(4 726 941)	678 %	809 %
Materials and bulk purchases	(12 146 000)	10 834 588	(1 311 412)	-	-	(1 311 412)	(11 805 195)		(10 493 783)	900 %	97 %
Transfers and grants	(1 408 000)	1 408 000	-	-	-	-	-		-	DIV/0 %	- %
Other expenditure	(13 370 000)	15 288 792	1 918 792	-	-	1 918 792	(18 700 137)		(20 618 929)	(975)%	140 %
<b>Total expenditure</b>	<b>(64 379 000)</b>	<b>50 691 754</b>	<b>(13 687 246)</b>	-	-	<b>(13 687 246)</b>	<b>(71 511 248)</b>		<b>(57 824 002)</b>	<b>522 %</b>	<b>111 %</b>
<b>Surplus/(Deficit)</b>	<b>(7 721 000)</b>	<b>(4 934 393)</b>	<b>(12 655 393)</b>	-	-	<b>(12 655 393)</b>	<b>(21 324 047)</b>		<b>(8 668 654)</b>	<b>188 %</b>	<b>276 %</b>

# Thembelihle Local Municipality

(Registration number NC076)

Financial Statements for the year ended 30 June 2016

## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and budget s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	18 886 437	(20 121 874)	(1 235 437)	-	-	(1 235 437)	26 444 451		27 679 888	(2 140)%	140 %
Surplus (Deficit) after capital transfers and contributions	11 165 437	(25 056 267)	(13 890 830)	-	-	(13 890 830)	5 120 404		19 011 234	(37)%	46 %
Surplus/(Deficit) for the year	11 165 437	(25 056 267)	(13 890 830)	-	-	(13 890 830)	5 120 404		19 011 234	(37)%	46 %

## Accounting Policies

### 1. Presentation of Financial Statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these financial statements, are disclosed below.

These accounting policies are consistent with the previous period, except for the changes set out in note 49 Changes in accounting policy.

These accounting policies are consistent with the previous period.

#### 1.1 Presentation currency

These financial statements are presented in South African Rand, which is the functional currency of the municipality.



# **Thembelihle Local Municipality**

(Registration number NC076)

Financial Statements for the year ended 30 June 2016

## **1.2 Going concern assumption**

These financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

## **1.3 Significant judgements and sources of estimation uncertainty**

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

### **Trade receivables**

The calculation in respect of the impairment of trade receivables is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per trade receivable per service.

### **Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 22 - Provisions.

### **Useful lives of waste and water network and other assets**

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

### **Post retirement benefits**

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 20.

### **Effective interest rate**

The municipality used the prime interest rate to discount future cash flows.

## **1.4 Investment property**

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

# Thembelihle Local Municipality

(Registration number NC076)

Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.4 Investment property (continued)

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

Based on management's judgement, the following criteria have been applied to distinguish investment properties from owner-occupied property or property held for resale:

- ☞ All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties; Land held for a currently undetermined future use. (If the Municipality has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation);
- ☞ A building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases (this will include the property portfolio rented out by the Housing Board on a commercial basis on behalf of the municipality); and
- ☞ A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, are as follows:

The following assets do not fall in the ambit of Investment Property and shall be classified as Property, Plant and Equipment, Inventory or Non-Current Assets Held for Sale, as appropriate:

- ☞ Property intended for sale in the ordinary course of operations or in the process of construction or development for such sale;
- ☞ Property being constructed or developed on behalf of third parties;

# Thembelihle Local Municipality

(Registration number NC076)

Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.4 Investment property (continued)

- ☞ Owner-occupied property, including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal;
- ☞ Property that is being constructed or developed for future use as investment property;
- ☞ Property that is leased to another entity under a finance lease;
- ☞ Property held to provide a social service and which also generates cash inflows, e.g. property rented out below market rental to sporting bodies, schools, low income families, etc; and
- ☞ Property held for strategic purposes or service delivery.

### 1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year.

The cost of an item of property, plant and equipment is recognised as an asset if, and only if,

- ☞ it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and if
- ☞ the cost or fair value of the item can be measured reliably.

Property, plant and equipment is initially measured at cost on its acquisition date or in the case of assets acquired by grants or donations, deemed cost, being the fair value of the asset on initial recognition.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for X,X and X which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

# Thembelihle Local Municipality

(Registration number NC076)

Financial Statements for the year ended 30 June 2016

## Accounting Policies

### 1.5 Property, plant and equipment (continued)

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life - Years
Land		
☞ Land	Not Applicable	
Buildings	Straight line	
☞ Improvements		10 - 30
Infrastructure	Straight line	
☞ Roads & Paving		5 - 80
☞ Electricity		5 - 50
☞ Water		10 - 100
☞ Sewerage/ Solid waste		10 - 60
☞ Water		10 - 100
Community	Straight line	
☞ Community Facilities		30
☞ Recreational facilities		15 - 30
Other	Straight line	
☞ Computer Equipment		5 - 10
☞ Emergency Equipment		10
☞ Furniture & Fittings		5 - 15
☞ Motor Vehicles		7 - 15
☞ Office Equipment		5 - 15
☞ Plant and Equipment		5 - 15

The assets' residual values, estimated useful lives and depreciation method are reviewed annually and adjusted prospectively, if appropriate, at each reporting date.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

# Thembelihle Local Municipality

(Registration number NC076)

Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.5 Property, plant and equipment (continued)

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

### 1.6 Site restoration and dismantling cost (Landfill sites)

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

### 1.7 Intangible assets

An asset is identifiable if it either:

- ☞ is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- ☞ arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- ☞ it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- ☞ the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

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### 1.7 Intangible assets (continued)

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	3 years

Intangible assets are derecognised:

- ☞ on disposal; or
- ☞ when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

### 1.8 Trade Payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Liabilities for annual leave (accrued leave pay) and annual bonus are recognised as they accrue to employees. Accrual is based on the potential liability of the municipality. Liabilities for goods and services rendered to the municipality before year end are accrued on management's estimate if the invoice or statement have not been issued.

### 1.9 Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Derecognition is the removal of a previously recognised financial asset or financial liability from the entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- ☞ Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- ☞ It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- ☞ It is settled at a future date.

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### 1.9 Financial Instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).



Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

-  cash;
-  a residual interest of another entity; or
-  a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

-  deliver cash or another financial asset to another entity; or
-  exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.



Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

-  the entity designates at fair value at initial recognition; or
-  are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

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### 1.9 Financial instruments (continued)

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- ☞ derivatives;
- ☞ combined instruments that are designated at fair value;
- ☞ instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

#### Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Cash & Cash Equivalents	Financial asset measured at cost
Trade Receivables	Financial asset measured at cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Loans	Financial liability measured at amortised cost
Finance leases	Financial liability measured at amortised cost
Payables	Financial liability measured at cost

#### Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

#### Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.



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### 1.9 Financial instruments (continued)

#### Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- ☞ Financial instruments at fair value.
- ☞ Financial instruments at amortised cost.
- ☞ Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

#### Reclassification

The municipality does not reclassify a financial instrument while it is issued or held unless it is:

- ☞ combined instrument that is required to be measured at fair value; or
- ☞ an investment in a residual interest that meets the requirements for reclassification.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

#### Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### Impairment and uncollectibility of financial assets

The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

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### **1.9 Financial instruments (continued)**

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

#### **Presentation**

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

### **1.10 Leases**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

#### **Finance leases - lessee**

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

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### **1.10 Leases (continued)**

#### **Operating leases - lessor**

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

#### **Operating leases - lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### **1.11 Inventories**

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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### **1.11 Inventories (continued)**

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

#### **Water**

The estimation of the water inventory in the reservoirs is based on the measurement of water via manual level meters, where the level indicates the depth of the water in the reservoir, which is then converted into volumes based on the total capacity of the relevant reservoir.

Water is regarded as inventory when the municipality purchased water in bulk with the intention to resell it to the consumer or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes etc.) However, water in dams, that are filled by natural resources and that has not yet been treated, is under the control of the municipality but can not be measured reliably as there is no cost attached to the water, is not recognised in the statement of financial position.

The basis of determining the cost of water purchased and not yet sold at statement of financial position date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location, net of trade discounts and rebates.

Water and purified effluent are valued by using the last invoice amount per KL as received from the water supplier to determine the lowest of cost and net realisable value.

### **1.12 Grant receivable**

Construction contract is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Cost plus or cost based contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of a commercially-based contract, an additional percentage of these costs or a fixed fee, if any.

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by completion of a physical proportion of the contract work.

Treasury provides the Municipality with the Regional Bulk infrastructure grant. This Grant refunds the Municipality for expenses incurred on approved projects.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

### **1.13 Impairment of cash-generating assets**

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

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### 1.13 Impairment of cash-generating assets (continued)

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

### 1.14 Employee benefits

Employee benefits are all forms of consideration given by the municipality in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting municipality, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting municipality's own creditors (even in liquidation) and cannot be paid to the reporting municipality, unless either:

- ☞ the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- ☞ the proceeds are returned to the reporting municipality to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- ☞ an municipality's decision to terminate an employee's employment before the normal retirement date; or
- ☞ an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from the municipality's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the municipality has indicated to other parties that it will accept certain responsibilities and as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

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### 1.14 Employee benefits (continued)

#### Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- ☞ wages, salaries and social security contributions;
- ☞ short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- ☞ bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- ☞ non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- ☞ as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- ☞ as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

#### Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which the municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

#### Post-employment benefits: Defined contribution plans

The municipality and its employees contribute to various pension, provident and retirement funds and its councillors contribute to the Pension fund for Municipal Councillors. The retirement benefits are calculated in accordance with the rules of the funds. Full actuarial valuations are performed by the relevant funds on a regular basis as per the requirement of the various funds. Current contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Some of the various funds that the municipality contributes to are multi-employer defined benefit plans but they are accounted for as defined contribution plans. This is because of the nature of these funds and the fact that the assets are not specifically associated to meet the obligations in respect of individual employers in terms of paragraph 30 of IAS 19. Thus there is no consistent and reliable basis for allocating the obligations, plan assets and costs to individual municipalities participating in the plan. The contributions to the fund obligations for the payment of retirement benefits are expensed in the year it becomes payable. These multi employer plans are actuarially valued annually on a national or provincial basis, using the projected unit credit method. Deficits, if any, are recovered through lumpsum payments or increased future contributions on proportional basis from all participating municipalities.

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### 1.14 Employee benefits (continued)

#### Post-employment benefits: Defined benefit plans

The cost of providing benefits is determined using the Projected Unit Credit method, with actuarial valuations being carried out at the end of each reporting period. Actuarial gains and losses that exceed 10% of the greater of the present value of the municipality's defined benefit obligation and the fair value of plan assets as at the end of the prior year are amortised over the expected average remaining working lives of the participating employees.




The municipality provides certain post-retirement medical benefits by funding the medical aid contributions of certain retired members of the municipality. According to the rules of all of the medical aid funds with which the municipality is associated, a member is entitled to remain a continued member of the medical aid fund upon retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. These medical aid funds are classified as defined benefit plans.

The current service cost is recognised as a period expense in the statement of financial performance and is matched to the benefit received during the working life of the employee. The current service cost includes the expense for benefits received by the employee currently in service and the cost of funding the employee when no longer in service.

Where some of the employees are not members of any qualifying medical aid scheme as at the reporting date, the municipality accrues 50% of such potential liability. This management estimate is meant to cater for employees who are likely to join the qualifying medical schemes in future but before retirement.

### 1.15 Provisions and contingencies

Provisions are recognised when:

-  the municipality has a present obligation as a result of a past event;
-  it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
-  a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 53.

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## Accounting Policies

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### 1.15 Provisions and contingencies (continued)

#### Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model, the related depreciation, based on the estimated useful life of the landfill site is recognised immediately in surplus or deficit.

If the related asset is measured using the revaluation model:

- ☞ changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

### 1.16 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- ☞ Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- ☞ Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or operational commitments are excluded.

### 1.17 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.



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## Accounting Policies

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### 1.17 Revenue from exchange transactions (continued)

#### Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- ☞ the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- ☞ the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- ☞ the amount of revenue can be measured reliably;
- ☞ it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- ☞ the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- ☞ the amount of revenue can be measured reliably;
- ☞ it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- ☞ the stage of completion of the transaction at the reporting date can be measured reliably; and
- ☞ the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service charges relating to electricity, water and sanitation are based on consumption. Meters are read and billed on a monthly basis and revenue is accounted for when invoiced. Estimated consumptions are made monthly when meters have not been read. The estimates of consumption are accounted for as revenue when invoiced. Adjustments to estimates of consumption are made in the invoicing period when meters have been read. These adjustments are accounted for as revenue or as a write back of revenue in the invoicing period. Revenue from the sale of electricity pre-paid meter cards are recognised at the point of sale. An adjustment for an unutilised portion is made at year end based on the average consumption history.

#### Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- ☞ It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- ☞ The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Income from agency services: Income from agency services are accounted for on a monthly basis once the income collected/retrieved on behalf of agents has been quantified. The income is accounted for in terms of the agency agreement.

### 1.18 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

# **Thembelihle Local Municipality**

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## **Accounting Policies**

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### **1.18 Revenue from non-exchange transactions (continued)**

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arises when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

### **Recognition**

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

### **Measurement**

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

# **Thembelihle Local Municipality**

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## **Accounting Policies**

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### **1.18 Revenue from non-exchange transactions (continued)**

#### **Rates, including collection charges and penalties interest**

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

#### **Transfers**

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

#### **Fines**

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

#### **Gifts and donations, including goods in-kind**

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

### **1.19 Borrowing costs**

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

# Thembelihle Local Municipality

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Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.19 Borrowing costs (continued)

#### Change in accounting policy due to amendments to GRAP 5 - Borrowing costs

The adoption of amendments to GRAP 5 - Borrowing costs resulted in a change in accounting policy during the current period. The effect of the change is that borrowing costs are now expensed when incurred, and this change is applied prospectively since . The effective date of the amendments were .

Borrowing costs, incurred both before and after the effective date of this amendment and related to qualifying assets for which the commencement date for capitalisation is prior to the effective date of this Standard, is recognised in accordance with the municipality's previous accounting policy.

### 1.20 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### 1.21 Unauthorised expenditure

Unauthorised expenditure means:

- ☞ overspending of a vote or a main division within a vote; and
- ☞ expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.22 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.23 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

# **Thembelihle Local Municipality**

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Financial Statements for the year ended 30 June 2016

## **Accounting Policies**

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### **1.23 Irregular expenditure (continued)**

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### **1.24 Budget Information**

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2015/07/01 to 2016/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

### **1.25 Related parties**

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the provincial sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

### **1.26 Accumulated surplus**

Accumulated surplus is updated on a yearly basis with the net deficit or net loss, whichever is applicable for the financial period's results.

### **1.27 Value Added Tax (VAT)**

The municipality is registered with SARS for VAT on the payment basis, in accordance with Sec15(2)(a) of the Value-added Tax Act No 89 of 1991. VAT is accounted for on the accrual basis as required by GRAP on the transaction basis. At year end balances remain for deferred VAT Receivable and Payable as well as the Actual amount receivable or payable with SARS.

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Figures in Rand

2016

2015

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## Notes to the Financial Statements

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### 2. New standards and interpretations

#### 2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2016 or later periods:

##### GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- ☞ identifying related party relationships and transactions;
- ☞ identifying outstanding balances, including commitments, between an entity and its related parties;
- ☞ identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- ☞ determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- ☞ A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- ☞ An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- ☞ Close member of the family of a person;
- ☞ Management;
- ☞ Related parties;
- ☞ Remuneration; and
- ☞ Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- ☞ Control;

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Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

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### 2. New standards and interpretations (continued)

-  Related party transactions; and
-  Remuneration of management

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

### GRAP 32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

### GRAP 108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

### IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.



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Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

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### 2. New standards and interpretations (continued)

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

#### GRAP 16 (as amended 2015): Investment Property

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:

- ☞ Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- ☞ Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- ☞ Clarify the wording related to the use of external valuers.
- ☞ Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- ☞ Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- ☞ Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

Various amendments were made to the Standard, affecting Definitions, Identification, Disclosure, Effective date and Transitional provisions.

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 financial statements.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

#### GRAP 17 (as amended 2015): Property, Plant and Equipment

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:

- ☞ Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- ☞ Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- ☞ Clarify the wording related to the use of external valuers.
- ☞ Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- ☞ Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- ☞ Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

Amendments identified as part of the post-implementation review, affected the following areas:

- ☞ Indicator-based assessment of the useful lives of assets
- ☞ Use of external valuers
- ☞ Encouraged disclosures
- ☞ Capital work-in-progress
- ☞ Expenditure incurred on repairs and maintenance

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 financial statements.

#### GRAP 21 (as amended 2015): Impairment of non-cash-generating assets

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

- ☞ simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cash-generating;
- ☞ assessing the feasibility of one measurement approach for non-cash-generating assets; and
- ☞ assessing the feasibility of combining the two Standards.

# Thembelihle Local Municipality

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Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

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### 2. New standards and interpretations (continued)

#### Summary of changes:

The changes to the Standard of GRAP on Impairment of Non-cash-generating Assets are outlined below:

#### General definitions:

The definition of cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of cash-generating assets and non-cash-generating assets.

Cash generating assets and non-cash-generating assets:

Additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets.

Identifying an asset that may be impaired:

Additional commentary has been added to clarify that physical damage triggers impairment of an asset when it results in a permanent or a significant decline in the potential of an asset.

Reversing an impairment loss:

An indicator has been added that the restoration of an asset's service potential following physical damage to the asset could indicate a reversal in an impairment loss.

Additional commentary has been added to clarify that restoration of an asset's service potential as a result of physical damage is an indication that an impairment loss recognised in prior periods may no longer exist or may have decreased.

#### Disclosures:

The requirement to disclose the criteria developed to distinguish non-cash-generating assets from cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of non-cash-generating assets and cash-generating assets.

The effective date of the standard is for years beginning on or after 01 April 2017.

The municipality expects to adopt the standard for the first time in the 2018 financial statements.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

#### GRAP 26 (as amended 2015): Impairment of cash-generating assets

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

- ☞ simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cash-generating;
- ☞ assessing the feasibility of one measurement approach for non-cash-generating assets; and
- ☞ assessing the feasibility of combining the two Standards.

#### Summary of changes:

The changes to the Standard of GRAP on Impairment of Cash-generating Assets are outlined below:

#### General definitions:

The definitions of cash-generating assets and cash-generating unit have been amended to be consistent with the amendments made to clarify the objective of cash-generating assets and non-cash-generating assets below.

Cash generating assets and non-cash-generating assets:

## **Thembelihle Local Municipality**

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Financial Statements for the year ended 30 June 2016

### **Notes to the Financial Statements**

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#### **2. New standards and interpretations (continued)**

Additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets.

##### **Disclosures:**

The requirement to disclose the criteria developed to distinguish cash-generating assets from non-cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of non-cash-generating assets and cash-generating assets.

The effective date of the standard is for years beginning on or after 01 April 2017.

The municipality expects to adopt the standard for the first time in the 2018 financial statements.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

#### **Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities**

Historically, public entities have prepared financial statements in accordance with generally recognised accounting practice, unless the Accounting Standards Board (the Board) approved the application of generally accepted accounting practice for that entity. "Generally accepted accounting practice" has been taken to mean Statements of Generally Accepted Accounting Practice (Statements of GAAP), or for certain entities, International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board. Since Statements of GAAP have been withdrawn from 1 December 2012, public entities will be required to apply another reporting framework in the future.

The purpose of this Directive is to prescribe the criteria to be applied by public entities in selecting and applying an appropriate reporting framework.

The effective date of the standard is for years beginning on or after 01 April 2018.

The municipality expects to adopt the standard for the first time in the 2019 financial statements.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

# Thembelihle Local Municipality

(Registration number NC076)

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>3. Inventories</b>		
Consumable stores	47 239	-
Water	1 656	1 641
	<b>48 895</b>	<b>1 641</b>
Carrying value of inventories carried at fair value less costs to sell	48 895	1 641
Inventories recognised as an expense during the year	142 047	-
<b>Inventory pledged as security</b>		
No inventory was pledged as security during the current financial period..		
<b>4. Receivables from exchange transactions</b>		
Deposits	72 501	-
Consumer debtors - Electricity	1 638 050	1 745 297
Consumer debtors - Water	275 138	214 597
Consumer debtors - Sewerage	126 358	221 190
Consumer debtors - Refuse	56 343	81 880
Consumer debtors - Arrears	664 215	146 074
Consumer debtors - Rentals	617 476	12 973
Consumer debtors - Other	94 398	3 243
	<b>3 544 479</b>	<b>2 425 254</b>
<b>5. Receivables from non-exchange transactions</b>		
Fines	478 370	478 369
Government grants and subsidies (Refer to note 30)	2 509 146	2 509 146
Consumer debtors - Rates	717 925	555 769
	<b>3 705 441</b>	<b>3 543 284</b>
<b>Receivables from non-exchange transactions impaired</b>		
As of 30 June 2016, Traffic fine receivables from non-exchange transactions, due to the impairment raised in the prior year, no impairment was raised for current year due to no change in the traffic services legal matter.		
The amount of the traffic fines and provision recognised was as follows.		
Traffic fines	3 460 741	3 372 000
Provision for traffic fines	(2 917 054)	(2 917 054)
	<b>543 687</b>	<b>454 946</b>

# Thembelihle Local Municipality

(Registration number NC076)

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
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### 6. Debt impairment

Debt Impairment	1 515 802	6 689 570
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The debt impairment indicated above includes both the impairments on Current and Non-Current Debtors.

The impairment movement is made up as follow:

Opening Balance (Current & Non-Current):	51 483 764	45 165 213
Bad debt written off (Consumers)	(18 585 892)	(357 919)
Bad debt written off (Traffic fines)	(119 889)	(13 100)
Provision on Non-Current Debtors	-	1 323 654
Provision on Current Debtors	(15 544 238)	2 435 763
Provision on Traffic fines	-	2 930 153
	<b>17 233 745</b>	<b>51 483 764</b>

### 7. Consumer debtors disclosure

#### Gross balances

Consumer debtors - Rates	4 385 548	7 684 530
Consumer debtors - Electricity	5 426 042	6 757 696
Consumer debtors - Water	9 566 498	13 953 582
Consumer debtors - Sewerage	7 841 682	11 893 967
Consumer debtors - Refuse	4 433 134	6 742 939
Consumer debtors - Arrears	664 215	1 791 814
Consumer debtors - Rentals	704 001	172 012
Consumer debtors - Other	274 780	280 456
	<b>33 295 900</b>	<b>49 276 996</b>

#### Less: Allowance for impairment

Consumer debtors - Rates	(3 667 623)	(7 128 761)
Consumer debtors - Electricity	(3 787 992)	(5 012 399)
Consumer debtors - Water	(9 291 360)	(13 738 985)
Consumer debtors - Sewerage	(7 715 324)	(11 672 777)
Consumer debtors - Refuse	(4 376 791)	(6 661 059)
Consumer debtors - Arrears	-	(1 645 740)
Consumer debtors - Rentals	(86 525)	(159 039)
Consumer debtors - Other	(180 382)	(277 213)
	<b>(29 105 997)</b>	<b>(46 295 973)</b>

#### Net balance

Consumer debtors - Rates	717 925	555 769
Consumer debtors - Electricity	1 638 050	1 745 297
Consumer debtors - Water	275 138	214 597
Consumer debtors - Sewerage	126 358	221 190
Consumer debtors - Refuse	56 343	81 880
Consumer debtors - Arrears	664 215	146 074
Consumer debtors - Rentals	617 476	12 973
Consumer debtors - Other	94 398	3 243
	<b>4 189 903</b>	<b>2 981 023</b>

# Thembelihle Local Municipality

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Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>7. Consumer debtors disclosure (continued)</b>		
Included in above is receivables from exchange transactions		
Electricity	1 638 050	1 745 297
Water	275 138	214 597
Sewerage	126 358	221 190
Refuse	56 343	81 880
Arrears	664 215	146 074
Rentals	617 476	12 973
Other	94 398	3 243
	<b>3 471 978</b>	<b>2 425 254</b>
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	909 574	553 913
Informal Settlements Rates	(8 518)	1 856
	<b>901 056</b>	<b>555 769</b>
<b>Net balance</b>	<b>4 373 034</b>	<b>2 981 023</b>
<b>Rates</b>		
Current (0 -30 days)	134 276	115 133
31 - 60 days	21 187	39 293
61 - 90 days	21 464	26 764
91 - 120 days	12 573	24 145
121 - 365 days	259 917	350 434
	<b>449 417</b>	<b>555 769</b>
<b>Electricity</b>		
Current (0 -30 days)	462 964	807 539
31 - 60 days	117 616	134 983
61 - 90 days	60 407	121 586
91 - 120 days	26 904	61 571
121 - 365 days	219 990	619 618
	<b>887 881</b>	<b>1 745 297</b>
<b>Water</b>		
Current (0 -30 days)	75 112	90 256
31 - 60 days	26 498	13 114
61 - 90 days	17 154	10 625
91 - 120 days	17 774	8 051
121 - 365 days	156 994	92 551
	<b>293 532</b>	<b>214 597</b>
<b>Sewerage</b>		
Current (0 -30 days)	69 739	63 237
31 - 60 days	20 647	18 840
61 - 90 days	14 000	11 677
91 - 120 days	10 731	9 972
121 - 365 days	87 927	117 464
	<b>203 044</b>	<b>221 190</b>

# Thembelihle Local Municipality

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Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

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### 7. Consumer debtors disclosure (continued)

#### Refuse

Current (0 -30 days)	34 459	27 177
31 - 60 days	8 611	5 660
61 - 90 days	6 402	3 675
91 - 120 days	5 394	2 794
121 - 365 days	46 088	42 574
	<b>100 954</b>	<b>81 880</b>

#### Business service levies

Current (0 -30 days)	57 493	15 052
31 - 60 days	51 867	9 169
61 - 90 days	46 020	5 359
91 - 120 days	45 981	5 016
121 - 365 days	320 029	111 478
	<b>521 390</b>	<b>146 074</b>

#### Regional services levies

Current (0 -30 days)	66 897	9 210
31 - 60 days	30 272	937
61 - 90 days	13 450	416
91 - 120 days	8 165	416
121 - 365 days	161 277	1 994
	<b>280 061</b>	<b>12 973</b>

#### Housing rental

Current (0 -30 days)	6 760	2 745
31 - 60 days	2 009	-
121 - 365 days	-	498
	<b>8 769</b>	<b>3 243</b>

# Thembelihle Local Municipality

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Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

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### 7. Consumer debtors disclosure (continued)

#### Summary of debtors by customer classification

##### Consumers

Current (0 -30 days)	880 453	1 068 565
31 - 60 days	464 832	544 552
61 - 90 days	388 252	508 423
91 - 120 days	385 759	476 627
121 - 365 days	25 832 316	41 820 452
	27 951 612	44 418 619
Less: Allowance for impairment	(26 793 407)	(43 279 187)
	<b>1 158 205</b>	<b>1 139 432</b>

##### Industrial/ commercial

Current (0 -30 days)	144 926	595 724
31 - 60 days	75 690	145 135
61 - 90 days	50 778	148 936
91 - 120 days	51 313	156 256
121 - 365 days	98 102	2 763 855
	420 809	3 809 906
Less: Allowance for impairment	(149 940)	(3 016 788)
	<b>270 869</b>	<b>793 118</b>

##### National and provincial government

Current (0 -30 days)	97 739	159 910
31 - 60 days	49 930	92 498
61 - 90 days	23 182	88 117
91 - 120 days	11 802	32 909
121 - 365 days	239 183	675 332
	421 836	1 048 766
Less: Allowance for impairment	(149 940)	-
	<b>271 896</b>	<b>1 048 766</b>

##### Total debtor past due but not impaired

31 - 60 days	210 207	221 997
61 - 90 days	123 009	180 103
91 - 120 days	106 823	110 129
121 - 365 days	765 994	1 338 740
	<b>1 206 033</b>	<b>1 850 969</b>

##### Reconciliation of allowance for impairment

Balance at beginning of the year	(46 295 973)	(43 859 572)
Contributions to allowance	15 544 238	(2 436 401)
	<b>(29 105 997)</b>	<b>(46 295 973)</b>

### 8. Other Receivables

Other receivables consist out of:



# Thembelihle Local Municipality

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Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand

### 8. Other Receivables (continued)

Motor registration fees	360 069	411 416
Court rulings	259 701	259 701
Other	715 856	-
	<b>1 335 626</b>	<b>671 117</b>

### 9. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	98 132	97 686
Bank balances	741 055	620 051
Short-term deposits	2 421 805	4 801
	<b>3 260 992</b>	<b>722 538</b>

The carrying value of these assets approximate their fair value. No securities are being held over these assets.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
ABSA Bank - Current Account - (Account No. 40-7030-7030)	28 890	346 607	-	22 981	344 929	-
ABSA Bank - Current Account - (Account No. 92-2871-4535)	1 408	1 350	62 671	1 408	1 350	62 671
ABSA Bank - Current Account - (Account No. 40-7512-6489)	-	-	96 948	-	-	96 948
ABSA Bank - Current Account - (Account No. 40-7722-5487)	-	-	140 415	-	-	140 415
Standard Bank - 048873772-001	2 421 805	4 801	5 014 476	2 421 805	4 801	5 014 476
Standard Bank - 041879171	122 016	222 639	3 542 437	159 887	238 757	3 572 732
Traffic Bank Account - 063362309	555 916	35 013	-	555 916	35 013	(26 228)
Petty Cash & Float	98 132	-	-	98 132	97 689	1 784
<b>Total</b>	<b>3 228 167</b>	<b>610 410</b>	<b>8 856 947</b>	<b>3 260 129</b>	<b>722 539</b>	<b>8 862 798</b>

### 10. Investment property

	2016			2015		
	Valuation	Accumulated depreciation	Carrying value	Valuation	Accumulated depreciation	Carrying value
Investment property	7 675 033	-	7 675 033	7 729 100	-	7 729 100

### Reconciliation of investment property - 2016

	Opening balance	Disposals	Fair value adjustments	Total
Investment property	7 729 100	(181 300)	308 533	7 675 033

# Thembelihle Local Municipality

(Registration number NC076)

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
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### 10. Investment property (continued)

#### Reconciliation of investment property - 2015

	Opening balance	Fair value adjustments	Total
Investment property	7 077 190	651 910	7 729 100

#### Details of property

##### Land

Land held for capital appreciation.

- Fair value	3 388 235	3 238 190
- Additions since purchase or valuation	-	142 710
	<b>3 388 235</b>	<b>3 380 900</b>

##### Land and Improvements

Land and Improvements held for capital appreciation.

- Fair value	4 468 098	3 839 000
- Additions since purchase or valuation	-	509 200
	<b>4 468 098</b>	<b>4 348 200</b>

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

#### Details of valuation

The effective date of the revaluations was 30 June 2016. The method used by the valuator was to use the existing valuation roll as prepared by the municipal valuer. The value per the valuation roll was increased or decreased to be calculated the current marked value from analysis of most recent property sales dating from 2009 to current.

The assumptions made were to use the marked related property information over the last 6 years to increase or decrease the property value to get to a fair value at the end of the financial year under review.

The fair value of Investment Property was provided by Pieter Hendrik Venter, registered as a Candidate Valuer under subsection (2) of section 22 of (Act 47) of 2000 assisted Pierre Rynners, registered as a Professional Associated Valuer under subsection (2) of Section 22 of (Act 47) of 2000 of the Property Valuers Profession Bill.

# Thembelihle Local Municipality

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Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

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### 11. Property, plant and equipment

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	7 193 673	-	7 193 673	7 227 066	-	7 227 066
Buildings	5 642 622	(3 066 604)	2 576 018	5 642 621	(2 878 046)	2 764 575
Plant and machinery	1 054 532	(399 855)	654 677	918 697	(336 702)	581 995
Furniture and fixtures	974 667	(428 685)	545 982	969 457	(397 488)	571 969
Motor vehicles	1 089 700	(287 777)	801 923	1 089 700	(268 322)	821 378
Office equipment	2 200 933	(856 956)	1 343 977	2 072 391	(737 873)	1 334 518
Finance lease assets	2 333 179	(1 735 904)	597 275	2 342 049	(1 363 128)	978 921
Infrastructure	283 669 684	(98 044 119)	185 625 565	273 136 243	(90 860 685)	182 275 558
Emergency equipment	305 684	(155 747)	149 937	305 684	(149 115)	156 569
Work in Progress	31 124 995	-	31 124 995	24 626 613	-	24 626 613
<b>Total</b>	<b>335 589 669</b>	<b>(104 975 647)</b>	<b>230 614 022</b>	<b>318 330 521</b>	<b>(96 991 359)</b>	<b>221 339 162</b>

### Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers received	Transfers	Depreciation	Total
Land	7 227 066	-	(33 393)	-	-	-	7 193 67
Buildings	2 764 575	-	-	-	-	(188 557)	2 576 01
Plant and machinery	581 995	135 835	-	-	-	(63 150)	654 67
Furniture and fixtures	571 969	5 210	-	-	-	(31 235)	545 98
Motor vehicles	821 378	-	-	-	-	(19 455)	801 92
Office equipment	1 334 518	147 996	(19 389)	-	-	(119 115)	1 343 97
Finance lease assets	978 921	-	(3 555)	-	-	(378 091)	597 27
Infrastructure	182 275 558	-	-	10 573 039	-	(7 223 032)	185 625 56
Emergency equipment	156 569	-	-	-	-	(6 632)	149 93
Work in Progress	24 626 613	17 071 421	-	-	(10 573 039)	-	31 124 99
<b>Total</b>	<b>221 339 162</b>	<b>17 360 462</b>	<b>(56 337)</b>	<b>10 573 039</b>	<b>(10 573 039)</b>	<b>(8 029 267)</b>	<b>230 614 02</b>

# Thembelihle Local Municipality

(Registration number NC076)  
Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand

### 11. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	7 227 066	-	-	-	-	7 227 066
Buildings	2 952 664	-	-	-	(188 089)	2 764 575
Plant and machinery	574 055	19 317	-	146 809	(158 186)	581 995
Furniture and fixtures	640 972	34 660	-	19 542	(123 205)	571 969
Motor vehicles	965 710	-	(73 105)	-	(71 227)	821 378
Office equipment	1 238 832	345 283	-	58 820	(308 417)	1 334 518
Finance Lease Assets	1 426 798	71 466	(115 807)	-	(403 536)	978 921
Infrastructure	160 725 643	-	-	29 020 633	(7 470 718)	182 275 558
Emergency Equipment	208 724	2 776	-	-	(54 931)	156 569
Work in Progress	33 818 374	20 134 270	-	(29 326 031)	-	24 626 613
	<b>209 778 838</b>	<b>20 607 772</b>	<b>(188 912)</b>	<b>(80 227)</b>	<b>(8 778 309)</b>	<b>221 339 162</b>

# Thembelihle Local Municipality

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Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

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### 11. Property, plant and equipment (continued)

#### Depreciation rates

The depreciation methods and average useful lives of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Buildings	Straight line	10 - 30
Electricity	Straight line	5 - 50
Roads and Paving	Straight line	10 - 100
Furniture and fittings	Straight line	5 - 15
Motor vehicles	Straight line	7 - 15
Office equipment	Straight line	5 - 15
Computer equipment	Straight line	5 - 10
Computer software	Straight line	3
Emergency Equipment	Straight line	10
Plant & Equipment	Straight line	5 - 15
Community Facilities	Straight line	30
Recreational Facilities	Straight line	15 - 30
Sanitation	Straight line	10 - 100
Sewerage / Solid Waste	Straight line	15 - 60
Water network	Straight line	10 - 100

#### Capitalised expenditure (excluding borrowing costs)

#### Assets subject to finance lease (Net carrying amount)

Finance lease assets	597 275	978 921
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#### Other Information

#### Details of properties

#### Reconciliation of Work-in-Progress 2016

	Included within Infrastructure	Total
Opening balance	24 626 613	24 626 613
Additions/capital expenditure	15 408 390	15 408 390
Transferred to completed items	(15 269 949)	(15 269 949)
	<b>24 765 054</b>	<b>24 765 054</b>

#### Reconciliation of Work-in-Progress 2015

	Included within Infrastructure	Total
Opening balance	33 818 374	33 818 374
Additions/capital expenditure	20 134 270	20 134 270
Transferred to completed items	(29 326 031)	(29 326 031)
	<b>24 626 613</b>	<b>24 626 613</b>

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

# Thembelihle Local Municipality

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## Notes to the Financial Statements

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### 12. Intangible assets

	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	561 088	(292 120)	268 968	500 300	(181 766)	318 534

#### Reconciliation of intangible assets - 2016

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software, other	318 534	63 840	(595)	(112 811)	268 968

#### Reconciliation of intangible assets - 2015

	Opening balance	Additions	Disposals	Transfers received	Amortisation	Total
Computer software, other	331 761	6 560	(3 701)	80 227	(96 313)	318 534

### 13. Non-Current Receivables from Exchange Transactions

Thembelihle Municipality provides two settlement options to Consumer debtors to settle their outstanding service accounts, **Option 1:** 25% of the outstanding balance is paid over 3 years. Once the 25% is settled the remaining 75% of the outstanding account are written off.

**Option 2:** 60% of the outstanding balance is paid once-off and the remaining 40% of the outstanding balance is written off.

The balance of R455 117 (2015: R455 117), after provision for impairments of R2 271 376 (2015: R2 271 376), reflect the Non-Current portion payable under Option1. The Amount written off under Option 1 and 2 totals R357 919 (2015: R357 919).

### 14. Loan payable

#### At amortised cost

DBSA Loans Non Current	3 817 470	4 788 807
DBSA Loans Current	893 834	488 610
	<b>4 711 304</b>	<b>5 277 417</b>

#### Total other financial liabilities

**4 711 304      5 277 417**

DBSA Loans are repayable on a quarterly basis at R178 663 with an interest charge of 14.79% per year. The loan will be fully repaid in March 2024.

#### Non-current liabilities

At amortised cost	3 817 470	4 788 807
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#### Current liabilities

At amortised cost	893 834	488 610
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# Thembelihle Local Municipality

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Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>15. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	19 149	702 431
- in second to fifth year inclusive	1 147	20 296
	20 296	722 727
less: future finance charges	(933)	(28 868)
<b>Present value of minimum lease payments</b>	<b>19 363</b>	<b>693 859</b>
<b>Present value of minimum lease payments due</b>		
- within one year	18 226	674 495
- in second to fifth year inclusive	214	19 364
	<b>18 440</b>	<b>693 859</b>
<b>Non-current liabilities</b>	<b>214</b>	<b>19 364</b>
<b>Current liabilities</b>	<b>19 149</b>	<b>674 495</b>
	<b>19 363</b>	<b>693 859</b>

It is municipality policy to lease certain office equipment under finance leases.

The average lease term was 3 years and the prime interest rate was 11% (2015: 9%).

Interest rates are fixed at the contract date. Certain leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 11.

### Market risk

The carrying amounts of finance lease liabilities are denominated in Rand:

Rand	19 363	693 859
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The fair value of finance lease liabilities approximates their carrying amounts.

### 16. Payables from exchange transactions

Trade payables	46 944 308	28 181 731
Payments received in advanced	446 725	278 097
Staff Overpaid	17 187	17 187
Rental Deposits	2 770	2 770
Accrued leave pay	1 556 049	1 239 274
Accrued bonus	388 540	493 731
Unallocated deposits received	155 508	156 722
Other payables	268 422	4 115
Retention fees	1 620 598	2 888 971
	<b>51 400 107</b>	<b>33 262 598</b>

### 17. VAT payable

Tax refunds payables	-	111 760
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### 18. VAT receivable

VAT	4 668 324	-
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# Thembelihle Local Municipality

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Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
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### 18. VAT receivable (continued)

The Municipality reports to SARS on the cashflow basis and accounts for VAT on the accrual basis as required by GRAP. Therefore deferred VAT balances are as follow:

VAT receivable from SARS:	2 214 053	1 589 062
Deferred VAT Claimable:	(48 386)	3 402 577
Deferred VAT Payable:	(3 669 779)	(5 183 256)
SARS payments made:	(1 574 280)	(1 580 526)
VAT incorrectly declared on Traffic fines:	-	79 857
	<u>-</u>	<u>-</u>

### 19. Consumer deposits

Rates	522 760	474 099
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### 20. Employee benefit obligations

#### Defined benefit plan

The plan is a post employment medical benefit plan.

#### Post retirement medical aid plan

The municipality operates a funded post employment health care defined benefit plan for qualifying employees. Employees of the municipality are members of LA Health, Hosmed, Bonitas, Keyhealth and SAMWUMED medical aid schemes.

The municipality is committed to pay 70% of the members post employment medical aid contributions. All subsidies are subject to a maximum of R3 871 for the year ending 30 June 2016. Under the plan, dependants of the former employees are entitled to continued membership of their medical aid scheme upon the death of the primary member. No other post-employment benefits are provided to these employees. As at the end of the financial period, the members of the medical aid entitled to the post employment medical scheme subsidy were 33 in-service members and 6 pensioners.

The most recent actuarial valuation of the plan assets and the present value of the defined obligations were carried out at 30 June 2016 by ARCH Actuarial Consulting. The present value of the defined benefit obligation, and the related current service cost and past service costs, were measured using the Projected Unit Credit Method.

The amounts recognised in the statement of financial position are as follows:

#### Carrying value

Present value of the defined benefit obligation-Active members	1 843 058	1 906 612
Present value of the defined benefit obligation-Continuation	2 957 315	2 116 865
	<u>4 800 373</u>	<u>4 023 477</u>
Non-current liabilities	(4 280 259)	(3 857 853)
Current liabilities	(217 968)	(165 624)
	<u>(4 498 227)</u>	<u>(4 023 477)</u>

The municipality does not have assets set aside for post-employment medical aid funding that qualify as plan assets in terms of the requirements of GRAP 25



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### 20. Employee benefit obligations (continued)

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	4 023 478	3 769 000
Benefits paid	(165 624)	(205 418)
Net expense recognised in the statement of financial performance	547 807	459 896
	<b>4 405 661</b>	<b>4 023 478</b>

### Net expense recognised in the statement of financial performance

Current service cost	197 519	129 000
Interest cost	350 288	336 000
Actuarial (gains) losses	-	(5 104)
	<b>547 807</b>	<b>459 896</b>

### Calculation of actuarial gains and losses

Actuarial (gains) losses – Obligation	46 283	(5 104)
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### Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9.30 %	8.89 %
Medical cost trend rates	0.84 %	0.80 %
Expected increase in healthcare costs	8.38 %	8.03 %
Future changes in maximum state healthcare benefits	5.91 %	3.26 %

**Replacement Ratio:** This is the expected pension as a percentage of final salary, at retirement. This assumption is required to determine the income band at retirement of members since some contribution rate tables are income-dependent. A replacement ratio of 65% was assumed. Income bands are assumed to increase with general salary inflation and therefore an explicit salary inflation assumption is not necessary.

**Decrement Assumptions:** Mortality [Active members: SA(85-90), Pensioners: PA(90)]

**Average retirement age:** The normal retirement age of employees is 65. It has been assumed that in-service members will retire at age 63, which then implicitly allows for expected rates of early and ill-health retirement.

**Continuation of Membership:** It has been assumed that 100% of in-service members will remain on the Municipality's health care arrangement should they stay until retirement.

**Family profile:** It has been assumed that husbands will be five years older than their wives. Further, we've assumed that 100% of married, 90% of single of eligible employees on a health care arrangement at retirement will have an adult dependant. For current retiree members, actual marital status was used and the potential for remarriage was ignored.

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### 20. Employee benefit obligations (continued)

#### Other assumptions - Sensitivity Analysis

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends, Discount rate and Post retirement mortality will have the following effects:

	One percentage point increase	One percentage point decrease
Health care inflation: Effect on the accrued liability	5 266 000	4 302 000
Discount rate: Effect on the accrued liability	4 207 000	5 543 000
Post retirement mortality: Effect on the accrued liability	-	4 977 000
Health care inflation: Effect on Current service and Interest costs	578 300	508 300
Mortality Rates: Effect on Current service and Interest costs	506 600	598 100

Amounts for the current and previous three years are as follows:

	R	R	R	R	R
Defined benefit obligation	4 800 000	4 023 000	3 769 000	5 875 000	-
Surplus (deficit)	(4 800 000)	(4 023 000)	(3 769 000)	(5 875 000)	-
Experience adjustments on plan liabilities	225 000	10 000	-	-	-

#### Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act and some are multi-employer exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

Included in defined contribution plan information above, is the following plans which are Multi-Employer Funds and are Defined Benefit Plans, but due to the fact that sufficient information is not available to enable the municipality to account for the plans as defined benefit plans. The municipality accounted for these plans as a defined contribution plans:

### 21. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Municipal Infrastructure Grant	(416 979)	5 507 503
Library Grant	1 544 725	846 435
Expanded Public Works Programme	259 723	431 480
Municipal Systems Infrastructure Grant	2 175	-
Integrated National Electricity Programme	38	38
	<b>1 389 682</b>	<b>6 785 456</b>

#### Movement during the year

Balance at the beginning of the year	6 785 456	11 620 200
Additions during the year	21 456 000	18 647 878
Income recognition during the year	(26 851 774)	(23 482 622)
	<b>1 389 682</b>	<b>6 785 456</b>

The nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

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#### 21. Unspent conditional grants and receipts (continued)

See note 35 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

#### 22. Provisions

##### Reconciliation of provisions - 2016

	Opening Balance	Additions	Total
Environmental rehabilitation	7 532 099	312 801	7 844 900

##### Reconciliation of provisions - 2015

	Opening Balance	Additions	Total
Environmental rehabilitation	6 373 026	1 159 073	7 532 099

##### Environmental rehabilitation provision

Council operates two disposal sites. In terms of the Environmental Conservation Act (Act No 73 of 1989), the municipality is responsible to perform a rehabilitation of the land upon closure of the landfill site.

Neither one of the two Landfill sites are registered as official dumping sites and are therefore operated without a permit. As disclosed in the Government Gazette no 10747 dated 24 July 2015, the maximum fine applicable for operating a waste disposal site under section 24G Fine Regulations of NEMA, rounds up to R10 million per site and a contingent liability has been disclosed.

Section 24G (1) of the NEMA also stipulates that the landfill site be closed with immediate effect if no objection has been made by the municipality, therefore the provision for rehabilitation has been calculated as a current liability at 30 June 2016.

The calculation was based on cost to close and rehabilitate the site within 12 months after 30 June 2016. As the closure date is estimated to be at year end, no discount rates were applied.

There is a new site under development at Hopetown at 30 June 2016, but is still in the process of being licensed and has not been used for disposal to date, therefore its rehabilitation provision will be added in the future, but cannot during this year's assessment due to no obligation to rehabilitate yet.

#### 23. Third Party Collections

The Liability is due to collections on behalf of the Department of safety on which the Municipality earns a 12% commission. During previous financial periods the balances, 88% of the collections, were not paid over to the Department of safety. The balance payable to the Department of safety due to these non-payments is R1 143 766 (2015: R1 261 378)

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### 24. Long Service Awards

The Municipality offers employees long service awards for every five years of service completed, from ten years of service to 45 years of service, inclusive.

Opening Balance	997 672
Current-service cost	118 458
Interest cost	76 178
Actuarial (Gain)/Loss	-1 894
Employee Benefit vesting's	-55 993
Closing Balance	1 134 491
Current Portion	103 860
Non-Current Portion	1 083 586

#### Key Financial Assumptions:

Discount rate:	8.60% p.a
General Salary Inflation:	7.25% p.a
Net effective discount rate:	1.26% p.a

The discount rate used is derived by using a liability-weighted average of the yields corresponding to the average term until payment of long service awards, for each employee. The corresponding liability weighted index-linked yield is 1.74%. These rates do not reflect any adjustment for taxation. These rates were deducted from the Bond Exchange of South Africa after the market close on 30 June 2016.

**Salary inflation rate:** This assumption is required to reflect the estimated growth in salaries of the eligible employees until retirement. It is important in that the LSA are based on an employee's salary at the date of the award. The assumption is traditionally split into two components, namely General Salary Inflation and Promotional Salary Escalation. The latter is considered under demographic assumptions.

**General Salary Inflation:** This assumption is more stable relative to the growth in Consumer Price Index (CPI) than in absolute terms. In most industries, experience has shown, that over the long-term, salary inflation is between 1.0% and 1.5% above CPI inflation.

The expected inflation assumption of 6.25% was obtained from the differential between market yields on index-linked bonds (1.74%) consistent with the estimated terms of the liabilities and those of nominal bonds (8.60%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as  $((1+8.60\%-0.50\%)/(1+1.74\%))-1$

Thus, a general salary inflation rate of 7.25% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 1.26%.

It has been assumed that the next salary increase will take place on 1 July 2017.

#### Key Demographic assumptions:

Average retirement age: 63 years

Mortality during employment: SA 85-90

Withdrawal from service (Sample annual rates)	Age	Rate Female	Rate Male
	20	24%	16%
	30	15%	10%
	40	6%	6%
	50	2%	2%
	55	1%	1%

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### 24. Long Service Awards (continued)

Demographic assumptions are required about the future characteristics of current employees who are eligible for LSA.

Promotional Salary Scale: The annual inflation rates below are in addition to the General Salary Inflation assumption of 7.25% per annum for all employees.

#### Promotional salary scale

Age band	Additional promotional scale
20 – 25	5.0%
25 – 30	4.0%
30 – 35	3.0%
35 – 40	2.0%
40 – 45	1.0%
> 45	0.0%

Pre-retirement Mortality:

SA85-90 ultimate table, adjusted down for female lives.

Average Retirement Age:

The normal retirement age is 65. It has been assumed that employees will retire at age 63 on average, which implicitly makes an allowance for expected rates of early and ill-health retirement.

**Withdrawal from Service:** If an in-service member leaves, the employer's liability in respect of that member ceases. It is therefore important not to overstate withdrawal rates. A sample of the assumed rates is set out below.

#### Sample withdrawal rates

Age	Females	Males
20	24%	16%
25	18%	12%
30	15%	10%
35	10%	8%
40	6%	6%
45	4%	4%
50	2%	2%
55	1%	1%
>59	0%	0%

The liability at the Valuation Date was recalculated to show the effect of:

- (i) A 1% increase and decrease in the assumed general salary inflation rate;
- (ii) A 1% increase and decrease in the discount rate;
- (iii) A two-year decrease and increase in the assumed average retirement age of employees; and
- (iv) A 50% decrease in the assumed withdrawal rates from service.

#### Sensitivity Analysis on the Unfunded Accrued Liability (in R Millions)

Assumption	Change	Liability	% change
Central assumptions		1.134	
General salary inflation	+1%	1.213	7%
	-1%	1.064	-6%
Discount Rate	+1%	1.060	-7%
	-1%	1.219	7%
Average retirement age	-2 yrs	1.043	-8%
	+2 yrs	1.200	6%
Withdrawal rates	-50%	1.345	19%

The table above indicates, for example, that if salary inflation is 1% greater than the long-term assumption made, the liability will be 7% higher than the results shown.

#### Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2016

Assumption	Change	Current-service Cost	Interest Cost	Total	% change
Central assumptions		118,500	76,200	194,700	

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## Notes to the Financial Statements

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<b>24. Long Service Awards (continued)</b>					
General salary inflation	+1%	129,100	81,800	210,900	8%
	-1%	109,000	71,100	180,100	-7%
Discount Rate	+1%	109,600	79,600	189,200	-3%
	-1%	128,500	72,100	200,600	3%
Average retirement age	-2 yrs	110,500	70,500	181,000	-7%
	+2 yrs	125,100	82,200	207,300	6%
Withdrawal rate	-50%	154,200	91,900	246,100	26%
<b>Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2017</b>					
<b>Assumption</b>	<b>Change</b>	<b>Current-service Cost</b>	<b>Interest Cost</b>	<b>Total</b>	<b>% change</b>
Central assumptions		144,600	93,200	237,800	
General salary inflation	+1%	157,300	99,900	257,200	8%
	-1%	133,300	87,100	220,400	-7%
Discount Rate	+1%	134,000	96,800	230,800	-3%
	-1%	156,600	88,800	245,400	3%
Average retirement age	-2 yrs	133,800	85,400	219,200	-8%
	+2 yrs	151,400	98,900	250,300	5%
Withdrawal rates	-50%	186,400	111,300	297,700	25%
<b>History of liabilities and assets</b>					
Accrued Liability				1 134 491	997 672
Fair value of plan asset				-	-
Surplus / (Deficit)				(1 134 491)	(997 672)
				-	-
<b>Past year and future projected Liability</b>					
Opening Accrued Liability				997 672	865 000
Current-service Cost				118 458	95 000
Interest Cost				76 178	69 000
Expected Benefit Vesting's				(55 923)	(122 000)
Total Annual Expense				138 713	42 000
Actuarial Loss / (Gain)				(1 894)	90 672
Closing Accrued Liability				1 134 491	997 672
				<b>2 407 695</b>	<b>2 037 344</b>
<b>25. Revenue</b>					
Service charges				19 939 730	16 230 103
Rental of facilities and equipment				834 606	433 232
Interest received (trading)				179 674	807 643
Licences and permits				57 446	20 358
Administration and management fees received				1	1
Commissions received				4 894	391 317
Discount received				1 343 155	458 676
Other income - (rollup)				240 099	602 695
Connection fees				84 055	74 796
Interest received - investment				368 613	390 984
Property rates				3 137 037	2 486 124
Informal Settlement Rates				198 362	112 539
Government grants & subsidies				49 496 402	45 537 487
Fines, Penalties and Forfeits				620 345	3 879 093
				<b>76 504 419</b>	<b>71 425 048</b>

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### 25. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	19 939 730	16 230 103
Rental of facilities and equipment	834 606	433 232
Interest received (trading)	179 674	807 643
Licences and permits	57 446	20 358
Administration and management fees received	1	1
Commissions received	4 894	391 317
Discount received	1 343 155	458 676
Other income - (rollup)	240 099	602 695
Connection fees	84 055	74 796
Interest received - investment	368 613	390 984
	<b>23 052 273</b>	<b>19 409 805</b>

The amount included in revenue arising from non-exchange transactions is as follows:

<b>Taxation revenue</b>		
Property rates	3 137 037	2 486 124
Informal Settlement Rates	198 362	112 539
<b>Transfer revenue</b>		
Government grants & subsidies	49 496 402	45 537 487
Fines, Penalties and Forfeits	620 345	3 879 093
	<b>53 452 146</b>	<b>52 015 243</b>

### 26. Service charges

Sale of electricity	12 106 030	10 795 362
Sale of water	3 742 162	2 069 661
Sewerage and sanitation charges	2 695 917	2 249 844
Refuse removal	1 395 621	1 115 236
	<b>19 939 730</b>	<b>16 230 103</b>

### 27. Rental of facilities and equipment

#### Premises

Premises	784 710	402 175
Venue hire	43 414	27 545
	<b>828 124</b>	<b>429 720</b>

#### Facilities and equipment

Rental of equipment	6 482	3 512
	<b>834 606</b>	<b>433 232</b>

### 28. Interest received

#### Interest revenue

Bank	368 613	390 984
Receivables from exchange transactions	-	807 643
	<b>368 613</b>	<b>1 198 627</b>

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<b>29. Licences and permits</b>		
Licences - exchange	56 396	16 545
Duplicate motor registration - exchange	828	3 813
Licences - Non-exchange	232	3 571
Motor registration - Non-exchange	225 374	189 149
	<b>282 830</b>	<b>213 078</b>
<b>30. Commissions received</b>		
Department of safety	4 894	391 317
<b>31. Discount received</b>		
Suppliers	-	458 676
<b>32. Other income</b>		
Garden & Sale of Gravel	27 648	70 271
Building Plans	117 655	73 100
Advertising	5 659	3 849
Enchroachments	1 189	103
Grave Plots	10 712	7 687
Insurance payouts	30 115	130 027
Diverse repayments from employees	25 871	283 869
Photostats & faxes	1 017	3 004
Sewerage obstructions	6 079	6 107
Tender Fees	4 210	14 650
Testing of meters	283	2 589
Valuation Certificates Issued	9 661	7 439
	<b>240 099</b>	<b>602 695</b>
<b>33. Connection fees</b>		
Consumers	84 055	74 796



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<b>34. Property rates</b>		
<b>Rates received</b>		
Residential	3 493 128	2 862 513
Less: Income forgone	(356 091)	(376 389)
	<b>3 137 037</b>	<b>2 486 124</b>

Property Rates are levied on the value of land and improvements, which valuation is performed every four years. During the financial period ended 30 June 2016 a new valuation roll was compiled which came into effect in July 2015

Interim valuations are processed on a continuous basis taking into account changes in individual property values due to alterations and subdivisions. During the 2015/16 financial period no alterations or subdivisions were noted.

Rates are levied monthly on property owners and are payable at the end of each month. Interest is levied at a rate determined by council on outstanding rates amounts.

#### Valuations

Residential	199 757 600	109 408 523
Commercial	68 265 500	27 067 500
State	19 219 400	19 210 450
Small holdings and farms	2 858 552 300	1 155 708 143
Released	57 338 120	32 531 350
	<b>3 203 132 920</b>	<b>1 343 925 966</b>

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2015. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on an annual basis with the final date for payment being 30 September 2016 (30 September 2015). Interest at prime plus 1% per annum (2015: 10%)

The new general valuation will be implemented on 01 July 2015.

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### 35. Government grants and subsidies

#### Operating grants

Equitable share	18 676 001	16 735 000
Finance Management Grant (FMG)	1 987 589	1 496 403
Municipal System Implementation Grant (MSIG)	815 236	934 059
Expanded Public Works Programme (EPWP)	1 080 047	607 930
Library Grant	485 710	185 435
LG SETA Grant	7 368	33 878
Municipal Infrastructure Grant (MIG) Operating Portion	-	570 246
Regional Bulk Infrastructure Grant (RBIG) Operating portion	-	12 164
Treasury's contribution towards Audit Fees	-	1 794 208
	<b>23 051 951</b>	<b>22 369 323</b>

#### Capital grants

Municipal Infrastructure Grant (MIG)	13 797 688	16 170 874
Regional Bulk Infrastructure Grant (RBIG)	12 646 763	6 481 493
Expanded Public Works Programme (EPWP)	-	212 200
Finance Management Grant (FMG)	-	303 597
	<b>26 444 451</b>	<b>23 168 164</b>
	<b>49 496 402</b>	<b>45 537 487</b>

#### Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	26 003 810	27 008 279
Unconditional grants received	18 683 379	18 583 954
	<b>44 687 189</b>	<b>45 592 233</b>

#### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. In terms of the allocation made by DPLG the funds are also utilised to enable the municipality to execute its functions as a local municipality. During the financial period an amount of R5 507 503 (2015: R2 804 000) was utilised as a refund on the unspent Municipal Infrastructure Grant balance.

All registered indigents receive a monthly subsidy of R 135 (2015: R 130), which is funded from the grant.

#### Municipal Infrastructure Grant (MIG)

Balance unspent at beginning of year	5 507 503	10 954 624
Current-year receipts	13 289 000	14 098 000
Conditions met - transferred to revenue	(13 705 979)	(16 741 121)
Other	(5 507 503)	(2 804 000)
	<b>(416 979)</b>	<b>5 507 503</b>

Conditions still to be met - remain liabilities (see note 21).

The Municipal Infrastructure Grant (MIG) was allocated for the construction of Highmast lights, sewer and water purification infrastructure as part of the upgrading of previously disadvantaged areas.

An amount of R 0 (2015: R2 804 000) was withheld from the allocated Equitable share as a refund of unspent MIG funds from previous financial periods.

All current year allocations were fully spent during the year and allocated to revenue under votes.

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#### 35. Government grants and subsidies (continued)

##### Library Grant

Balance unspent at beginning of year	846 435	249 870
Current-year receipts	1 184 000	782 000
Conditions met - transferred to revenue	(485 710)	(185 435)
	<b>1 544 725</b>	<b>846 435</b>

Conditions still to be met - remain liabilities (see note 21).

The grant was as part of a contribution towards the running of libraries i.e to cover operational costs.

##### Expanded Public Works Programme (EPWP)

Balance unspent at beginning of year	431 480	251 610
Current-year receipts	1 000 000	1 000 000
Conditions met - transferred to revenue	(1 171 803)	(820 130)
	<b>259 677</b>	<b>431 480</b>

Conditions still to be met - remain liabilities (see note 21).

The grants was received for the purpose of creating job opportunities. No funds have been withheld.

##### Finance Management Grant (FMG)

Balance unspent at beginning of year	-	-
Current-year receipts	1 875 000	1 800 000
Conditions met - transferred to revenue	(1 875 000)	(1 800 000)
	<b>-</b>	<b>-</b>

Conditions still to be met - remain liabilities (see note 21).

The Financial Management Grant is paid by National Treasury to municipalities to assist the financial management reforms required by the Municipal Finance Management Act (MFMA), 2003. No funds have been withheld.

##### Municipal Systems Improvement Grant (MSIG)

Balance unspent at beginning of year	-	59
Current-year receipts	930 000	934 000
Conditions met - transferred to revenue	(927 825)	(934 059)
	<b>2 175</b>	<b>-</b>

Conditions still to be met - remain liabilities (see note 21).

The Municipal Systems Improvement Grant is allocated to municipalities to assist in building in-house capacity to perform their functions and to improve and stabilise municipal systems. No funds have been withheld.

##### Integrated National Electricity Programme (INEP)

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<b>35. Government grants and subsidies (continued)</b>		
Balance unspent at beginning of year	38	38
Current-year receipts	-	164 000
Other	-	(164 000)
	<b>38</b>	<b>38</b>

Conditions still to be met - remain liabilities (see note 21).

The grants was paid to the municipality to promote rural development and upgrade the electricity infrastructure.

#### Regional Bulk Infrastructure Grant (RBIG)

Balance unspent at beginning of year	(2 509 145)	(1 136 908)
Current-year receipts	4 690 477	5 121 420
Conditions met - transferred to revenue	(5 592 574)	(6 493 657)
	<b>(3 411 242)</b>	<b>(2 509 145)</b>

Conditions still to be met - remain liabilities (see note 21).

This Grant was used for the operation and maintenance of sewerage and water schemes transferred from RBIG to the municipality and the refurbishment of infrastructure. The balance of expenditures meetings the conditions and will be claimable in the 2016-17 financial period totals R3 471 605.

#### Treasury's contribution towards Audit Fees

Balance unspent at beginning of year	-	-
Current-year receipts	1 343 155	1 794 208
Conditions met - transferred to revenue	(1 343 155)	(1 794 208)
	<b>-</b>	<b>-</b>

According to the Public Audit Act the Municipality is only responsible for an audit fee from the offices of the Auditor General equal to 1% of their total expenditures per annum. The balance of the audit fees are payable by Treasury.

#### 36. Fines, Penalties and Forfeits

Library and lost books	10 700	93
Traffic	609 645	3 466 184
Tests	-	412 816
	<b>620 345</b>	<b>3 879 093</b>

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## Notes to the Financial Statements

Figures in Rand	2016	2015
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### 37. Employee related costs

Basic	12 430 093	12 273 243
Commissions	-	526
Medical aid - company contributions	828 994	619 396
UIF	128 917	112 224
SDL	230 550	201 739
Other payroll levies	-	12 719
Leave pay provision charge	295 133	444 359
Defined contribution plans	742 443	629 000
Overtime payments	1 425 149	1 705 614
Long-service awards	3 340	22 903
13th Cheques	1 218 957	1 050 716
Car allowance	281 758	94 157
Housing benefits and allowances	53 336	29 103
Telephone Allowances	186 437	66 881
Pension fund contributions	2 174 777	1 919 625
Provident fund contributions	62 862	60 865
Stipends	161 500	163 500
Wages	31 601	557 572
	<b>20 255 847</b>	<b>19 964 142</b>

### Remuneration of municipal manager

Annual Remuneration	672 047	575 318
Car Allowance	168 126	152 344
Contributions to UIF, SDL, Medical and Pension Funds	109 328	112 006
	<b>949 501</b>	<b>839 668</b>

### Remuneration of chief finance officer

Annual Remuneration	586 572	554 288
Car Allowance	49 820	106 617
Contributions to UIF, SDL, Medical and Pension Funds	46 499	108 142
	<b>682 891</b>	<b>769 047</b>

### Remuneration of corporate services director

Annual Remuneration	706 562	394 148
Contributions to UIF, SDL, Medical and Pension Funds	1 785	1 337
Other	-	29 585
	<b>708 347</b>	<b>425 070</b>

### Remuneration of technical services director

Annual Remuneration	677 694	116 990
Car Allowance	-	52 875
Performance Bonuses	-	3 750
Contributions to UIF, SDL, Medical and Pension Funds	5 198	2 190
Other	-	13 889
	<b>682 892</b>	<b>189 694</b>

# Thembelihle Local Municipality

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## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>38. Remuneration of councillors</b>		
Executive Mayor (Total Package)	884 968	673 386
Councillors (Total Packages)	1 639 394	1 824 667
	<b>2 524 362</b>	<b>2 498 053</b>
<b>39. Administrative expenditure</b>		
Administration and management fees	25 880	14 587
Administration and management fees - related party	213	-
	<b>26 093</b>	<b>14 587</b>
<b>40. Depreciation and amortisation</b>		
Property, plant and equipment	8 029 267	8 778 309
Intangible assets	112 811	96 313
	<b>8 142 078</b>	<b>8 874 622</b>
<b>41. Finance costs</b>		
Non-current borrowings	154 816	275 102
Trade and other payables	4 988 890	2 078 288
Finance leases	87 689	98 637
Increase in Rehabilitation Provision	312 801	1 159 073
	<b>5 544 196</b>	<b>3 611 100</b>
<b>42. Operating lease</b>		
The Municipality rents equipment used in bathroom facilities on an operating lease basis. The contract commenced in December 2015 and is renewable on an annual basis.		
<ul style="list-style-type: none"> <li>☞ The rent payable on a monthly basis amounts to R2 207.</li> <li>☞ No escalation clauses exists and the contract is renewable after a year.</li> <li>☞ Future rent payable:</li> </ul>		
Amount payable within 1 year	11 035	10 950
Amount payable from 2 to 5 years	-	-
Amount payable after 5 years	-	-
	<b>11 035</b>	<b>10 950</b>
<b>43. Repairs and maintenance</b>		
Repairs and maintenance consists of:		
Buildings	93 338	180 885
Consumer connections	24 487	65 487
General maintenance	13 950	230 051
Roads	-	119 345
Networks, pumps and dams	374 188	595 371
	<b>505 963</b>	<b>1 191 139</b>

# Thembelihle Local Municipality

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## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>44. Bulk purchases</b>		
Electricity	11 397 415	10 031 367
Water	407 780	340 642
	<b>11 805 195</b>	<b>10 372 009</b>
<b>45. Contracted services</b>		
Specialist Services	44 591	18 346
Other Contractors	6 140	73 185
	<b>50 731</b>	<b>91 531</b>
<b>46. General expenses</b>		
Advertising	140 776	160 128
Auditors remuneration	3 061 771	2 426 545
Bank charges	74 689	74 057
Consulting and professional fees	2 494 416	2 617 432
Consumables	32 237	106 123
Debt collection	39 145	146 140
Delivery expenses	5 505	18 598
Donations	(137 911)	3 253
Entertainment	2 499	3 146
Flowers	-	289
Insurance	305 201	252 646
IT expenses	355 830	-
Motor vehicle expenses	656 258	523 792
Fuel and oil	646 949	492 122
Postage and courier	70 428	66 056
Printing and stationery	419 737	379 414
Protective clothing	91 553	26 713
Project maintenance costs	2 598 389	65 206
Royalties and license fees	700 717	600 958
Staff welfare	6 411	8 560
Subscriptions and membership fees	532 116	588 672
Telephone and fax	537 211	312 863
Training	16 342	67 000
Electricity	618 990	690 016
Refuse	-	5 407
Free Basic Services	2 348 081	1 420 991
Special Programs	117 760	233 415
Subsistence and Traveling	1 611 077	1 544 549
TVS	-	279 118
Chemicals	367 420	364 082
	<b>17 713 597</b>	<b>13 477 291</b>
<b>47. Fair value adjustments</b>		
Investment property (Fair value model)	127 233	651 910

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## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>48. Cash generated from operations</b>		
Surplus	5 345 788	2 966 453
Adjustments for:		
Depreciation and amortisation	8 142 078	8 874 622
Gain (loss) on sale of assets and liabilities	235 163	192 614
Fair value adjustments	(127 233)	(651 910)
Finance costs	-	392 525
Debt impairment	1 515 802	6 689 570
Actuarial cost	44 389	-
Movements in retirement benefit assets and liabilities	567 180	259 582
Donations & Discounts	-	(2 307 630)
Movement in Provisions	312 801	1 286 640
Equitable share withheld	-	(2 804 000)
Interest on Receivables	-	(390 985)
Changes in working capital:		
Inventories	(47 254)	143 298
Receivables from exchange transactions	(2 329 826)	(8 685 607)
Consumer debtors	48 661	(503 416)
Other receivables from non-exchange transactions	(467 358)	-
Non-receivables from exchange transaction	(1 524)	-
Payables from exchange transactions	18 137 507	12 350 189
VAT	(4 780 084)	(2 379 134)
Unspent conditional grants and receipts	(5 395 774)	(2 030 744)
Consumer deposits	(20)	(2 029)
	<b>21 200 296</b>	<b>13 400 038</b>

### 49. Other revenue

Administration and management fees received - third party	1	1
Commissions received	4 894	391 317
Discount received	1 343 155	458 676
Other income - (rollup)	240 099	602 695
Connection Fees	84 055	74 796
	<b>1 672 204</b>	<b>1 527 485</b>

### 50. Auditors' remuneration

Fees	3 061 771	2 426 545
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### 51. Financial instruments disclosure

#### Categories of financial instruments

#### 2016

#### Financial assets

	At cost	Total
Trade and other receivables from exchange transactions	3 279 782	3 279 782
Cash and cash equivalents	2 815 085	2 815 085
Other receivables	671 117	671 117
	<b>6 765 984</b>	<b>6 765 984</b>

#### Financial liabilities



# Thembelihle Local Municipality

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## Notes to the Financial Statements

Figures in Rand

2016

2015

### Financial instruments disclosure (continued)

	At amortised cost	At cost	Total
Finance Leases	19 364	-	19 364
Loans payable	4 697 757	-	4 697 757
Trade and other payables from exchange transactions	-	50 992 802	50 992 802
Third Party Collections	-	1 143 766	1 143 766
	<b>4 717 121</b>	<b>52 136 568</b>	<b>56 853 689</b>

2015

### Financial assets

	At cost	Total
Trade and other receivables from exchange transactions	2 425 254	2 425 254
Cash and cash equivalents	722 539	722 539
Other Receivables	671 117	671 117
	<b>3 818 910</b>	<b>3 818 910</b>

### Financial liabilities

	At amortised cost	At cost	Total
Finance Leases	693 859	-	693 859
Loans payable	5 142 385	-	5 142 385
Trade and other payables from exchange transactions	-	33 262 613	33 262 613
Third Party Collections	-	1 261 378	1 261 378
	<b>5 836 244</b>	<b>34 523 991</b>	<b>40 360 235</b>

### 52. Commitments

#### Authorised capital expenditure

##### Already contracted for but not provided for

Property, plant and equipment	21 327 819	15 536 567
-------------------------------	------------	------------

##### Not yet contracted for and authorised by accounting officer

Property, plant and equipment	52 257 565	79 558 609
-------------------------------	------------	------------

#### Total capital commitments

Already contracted for but not provided for	21 327 819	15 536 567
Not yet contracted for and authorised by accounting officer	52 257 565	79 558 609
	<b>73 585 384</b>	<b>95 095 176</b>

#### Total commitments

#### Total commitments

Authorised capital expenditure	73 585 384	95 095 176
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This committed expenditure relates to plant and equipment and will be financed by available bank facilities, retained surpluses, existing cash resources, government grants, funds internally generated, etc.

# Thembelihle Local Municipality

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Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand

2016

2015

### 53. Contingencies

#### Contingent Liabilities

##### Landfill sites

The Municipality currently have two active landfill sites. It has been identified that the landfill sites situated in Hopetown and Strydenburg are not licensed as required by the National Environmental Management Waste Act, 2008, (Act no 59 of 2008).

In accordance with section 68(1) of the National Environmental Management Waste Act, 2008, (Act no 59 of 2008), a person convicted of an offence referred to in section 67(1)(a), (g) or (h) is liable to a fine not exceeding R10 000 000 or to imprisonment for a period not exceeding 10 year, or to both such fine and imprisonment, in addition to any other penalty or award that may be imposed or made.

##### Environmental Act -

In terms of the Environmental Act, the municipality is responsible for a number of environmental related transactions that may take place in its jurisdiction. This gives rise to contingent liabilities. However, the nature of such transactions cannot be estimated both financially and the number of occurrences, if any are to occur. Whilst the municipality is not aware of such liabilities, the following are the key transactions:

- contingent liabilities relating to fines that may be imposed by the department of environmental affairs as a result of illegal dumping by municipal employees.
- penalties relating to raw sewerage or sewerage not properly treated being released to nearby rivers or dams.
- penalties relating to lack of proper security at the municipality's dumping site or lack of monitoring waste being dumped there as some waste should be dumped in a certain specific way so as to avoid related health hazards e.g. medical waste.

##### Total Traffic Services (TTS)

The municipality has been in the litigation process against a service provided, this dispute arose due to contract performance issues raised from both the municipality and service provider. The municipality's lawyer has last provided calculations to Total Traffic Services on 3 June 2016, no response has been received from the attorneys of TTS. The municipality's lawyer considers the likelihood of TTS proceeding with the litigation process as unlikely.

##### Contingent assets

A warrant for arrest has been issued against a previous employee and proceedings are underway and a possible R92 000 will be receivable once the case has been concluded.

There has also been legal action taken against a previous employee in relation to a possible amount of R 167 701 will be received as the estate operator dealing with above claim has undertaken a possible settlement of outstanding debt.

# Thembelihle Local Municipality

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Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>54. Related parties</b>		
<b>Relationships</b>		
Accounting Officer	MAHLASEDI INVESTMENT HOLDINGS, MOSOGOLI TRADING AND INVESTMENTS, MERITING INVESTMENTS, MAHLASEDI INVESTMENT HOLDINGS, SQUIRES KIMBERLEY, J M P L C INVESTMENT HOLDINGS, CITY SQUARE TRADING, SWANVEST, LEITLHO INVESTMENTS, THETA MINING, SAMBER TRADING.	
Members of key management	NE Mguye - NM Vegetation G Butterworth - Angelfish Investments DA Jonas - Thembelihle Bricks B Mpamba - Thembelihle Bricks A Kywe - Basadi Decorations and Projects	
<b>Related party balances</b>		
<b>Accounts included in Trade Receivables regarding related parties</b>		
Jonas DA	4 995	45 005
Louw P	80 892	319
Humphreys MA	41 766	113 244
Mpamba B	354	218
Madekane SE	11 256	45
<b>Rent received from related parties</b>		
Lidia Walters	8 735	19 670
Linda van Wyk	1 652	19 670
Solly Dwango	9 558	8 783
NP Mqokosa	39 600	2 218
Tania Gorrah	16 888	15 518
Danny Jonas	19 800	10 811
SF Yekani	26 400	3 844
TC Molusi	12 125	-
L Graham	2 491	1 108
K Ramabodu	2 666	1 108
R Goaya	8 693	671
U Johannes	889	-
<b>Provision for bad debt</b>		
Jonas DA	1 524	13 726
Humphreys MA	59 051	97 676
Mpamba B	108	219
<b>Compensation to Council Members</b>	<b>Total Package</b>	<b>Closing balance</b>
SE Madekane	310 226	310 226
B Mpamba	316 304	316 304
E De Bruin	319 725	319 725
P Louw	273 141	273 141
A Kywe	302 760	298 180
MA Humphreys	300 942	298 461
	<b>1 823 098</b>	<b>1 816 037</b>
<b>Compensation to accounting officer and other key management</b>		
Accounting Officer - M Mogale	839 668	786 891
Chief Financial Officer - G Butterworth	769 047	358 950
Corporate Services Director - NE Mguye	425 070	463 692
Technical Services Director - ER Painting	189 694	699 102

# Thembelihle Local Municipality

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Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>54. Related parties (continued)</b>		
Mayor - DA Jonas	673 386	624 474
	<b>2 896 865</b>	<b>2 933 109</b>

### 55. Prior period errors

A number of of accounts were re-stated in the comparative amounts of the financial statements due to prior period errors. Where applicable, the corrections and/or changes were adjusted retrospectively, unless otherwise stated.

#### Intangible assets:

The useful life of intangible assets have been revised (Change in Estimate) in 2014/15 financial year, for which change in estimate was not applied in prior year:

Change in Estimate adjusting the remaining useful life of Intangible Assets. This also impacted 2015 years disposals as well as depreciation.

Errors relating to the period prior 30 June 2015 amounts to R118 641, changes to the 2014/15 movements were as follow:

Additions:	-R 61 672
Depreciation:	R 118 641
Disposals:	-R 82
Retained Earnings:	- R 57 051

The total adjustment to the carrying value of Property, Plant and Equipment as at 30 June 2015 amounts to R57 051.

#### Loan payable:

In the prior financial year interest on the DBSA loans were incorrectly recognised resulting in the increase in the Loan payables of R 135 033 and a increase in finance charges to the amount of R 135 033 Errors relating to the period prior to 30 June

Cash flow statement changes will directly relate to the changes made as mentioned above.

The corrections of the above metioned resulted in the following adjustments:

**Accumulated surplus:** The corrections mentioned above affected the balance of the accumulated surplus.

#### Statement of financial position

(Increase) in Loan Payables	135 032	135 032
Intangible assets	118 641	118 641
Accummulated Surplus	16 392	(57 051)

#### Statement of Financial Performance

(Decrease) in Amortisation / depreciation	-	(61 672)
Increase in Loss on the disposal of assets	-	82
Increase in Finance charges	-	135 033

### 56. Risk management

#### Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

# Thembelihle Local Municipality

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## Notes to the Financial Statements

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### 56. Risk management (continued)

#### Liquidity risk

Ultimate responsibility for liquidity risk management rests with the council and the finance committee which has built an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and liquidity management requirements. The municipality manages liquidity risks by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Municipality also gets funding from National and Provincial government which helps to ease the pressure of any liquidity crisis.

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the policy. Trade Receivables are presented net of an allowance for impairment.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2016	2015
Receivables from exchange transactions	3 279 782	2 880 371
Receivables from Non-exchange transactions	3 705 441	3 519 861
Other Receivables	671 117	671 117
Pre Payments	-	17 460

#### Market risk

##### Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. During 2016 and 2015, the municipality's borrowings at variable rate were denominated in the Rand.

##### Cash flow interest rate risk

Financial instrument	Current Interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Trade and other receivables - normal credit terms	10.00 %	3 997 707	-	-	-	-
Cash in current banking institutions	- %	914 157	-	-	-	-
Short term deposits	- %	2 421 805	-	-	-	-
Trade and other payables	- %	51 207 906	-	-	-	-
Grant receivable	- %	2 509 146	-	-	-	-
Other receivable	- %	619 770	-	-	-	-
Loan from DBSA	14.79 %	490 386	515 020	540 891	568 062	2 572 309
Finance leases	11.00 %	19 149	1 147	-	-	-
Third party collections	- %	103 860	1 083 586	-	-	-

# Thembelihle Local Municipality

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## Notes to the Financial Statements

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### 57. Going concern

We draw attention to the fact that at 30 June 2016, the municipality had accumulated deficits of R 182 149 180 and that the municipality's total liabilities exceed its assets by R 182 149 180.

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality. The municipality currently survives on Grants received from National and Provincial government.

The following matters has been considered relating to the going concern:

- Council approved the budget for the 2016/17 to 2018/19 budget. This three year Medium Term Revenue and Expenditure Framework (MTREF) to support the ongoing delivery of municipal services to residents reflected that the budget was cash backed over the three year period.
- The Municipality's budget is subjected to a very rigorous independent assessment process to assess its cash backing status before it is ultimately approved by council.
- Strict daily cash management processes are embedded in the municipality's operations to manage and monitor all actual cash inflows and cash outflows in terms of the cashflow forecast supporting the budget. The cash management process is complemented by monthly reporting, highlighting the actual cash position, including the associated risks and remedial actions to be instituted.
- As the municipality has power to levy fees, tariffs and charges, this will result in an ongoing inflow of revenue to support the ongoing delivery of municipal services.
- The Municipality's cash management was under pressure during the 2015/16 financial period due to an amount of R5.5 million being withheld from the Equitable share receivable. R5.5 million was withheld from Municipal Infrastructure Grants due to Regional Bulk Infrastructure Grants that were over utilised in the past.

### 58. Events after the reporting date

No events having financial implications requiring disclosure occurred subsequent to 30 June 2016.

### 59. Unauthorised expenditure

Unauthorised expenditure	34 213 230	19 308 681
Unauthorised expenditure current year	-	14 904 549
	<b>34 213 230</b>	<b>34 213 230</b>

### 60. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	4 782 771	2 585 057
Current year	4 201 905	2 197 714
	<b>8 984 676</b>	<b>4 782 771</b>

Interest charges on overdue accounts: The Municipality was charged for interest on outstanding accounts. The main creditors that charged interest consist of:

Eskom	3 293 218	1 379 077
Auditor General's office	809 864	678 373
	<b>4 103 082</b>	<b>2 057 450</b>

## **Thembelihle Local Municipality**

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Financial Statements for the year ended 30 June 2016

### **Notes to the Financial Statements**

Figures in Rand

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#### **61. Irregular expenditure**

Opening balance	73 850 276	66 433 964
Add: Irregular Expenditure - current year	23 984 767	7 416 312
	<b>97 835 043</b>	<b>73 850 276</b>

#### **Analysis of expenditure awaiting condonation per age classification**

Current year	23 984 767	7 416 312
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# Thembelihle Local Municipality

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Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

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### 61. Irregular expenditure (continued)

#### Details of Irregular expenditure – current year

	<b>Disciplinary steps taken/criminal proceedings</b>	
Tlotlo-tlhanggo - No contractual agreement available	No disciplinary actions have been taken. The transactions will be presented to Council for investigation.	10 715 778
Worley Parsons - No contractual agreement available	No disciplinary actions have been taken. The transactions will be presented to Council for investigation.	692 848
Mosengoana trading - No contractual agreement available	No disciplinary actions have been taken. The transactions will be presented to Council for investigation.	6 718 178
URSA Civils - No contractual agreement available	No disciplinary actions have been taken. The transactions will be presented to Council for investigation.	962 460
Viking Pony Africa Pumps - No contractual agreement available	No disciplinary actions have been taken. The transactions will be presented to Council for investigation.	445 524
PCI Africa - No contractual agreement available	No disciplinary actions have been taken. The transactions will be presented to Council for investigation.	407 006
PCI Africa - No contractual agreement available	No disciplinary actions have been taken. The transactions will be presented to Council for investigation.	1 473 681
Thomason Consulting (Pty) Ltd - No contractual agreement available	No disciplinary actions have been taken. The transactions will be presented to Council for investigation.	124 464
Nomad Construction - No contractual agreement available	No disciplinary actions have been taken. The transactions will be presented to Council for investigation.	206 692
Liquid telecom - No contractual agreement available	No disciplinary actions have been taken. The transactions will be presented to Council for investigation.	72 732
OMJ construction - No contractual agreement available	No disciplinary actions have been taken. The transactions will be presented to Council for investigation.	120 000
AAS OPERATIONS - No contractual agreement available	No disciplinary actions have been taken. The transactions will be presented to Council for investigation.	378 459
VODACOM - No contractual agreement available	No disciplinary actions have been taken. The transactions will be presented to Council for investigation.	139 732
C-PAC PUMPS - No contractual agreement available	No disciplinary actions have been taken. The transactions will be presented to Council for investigation.	325 069
ASTRA TRAVEL - No contractual agreement available	No disciplinary actions have been taken. The transactions will be presented to Council for investigation.	94 515
PC WORLD - No contractual agreement available	No disciplinary actions have been taken. The transactions will be presented to Council for investigation.	293 920
Combination of other parties	No disciplinary actions have been taken. The transactions will be presented to Council for investigation.	382 857



# Thembelihle Local Municipality

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## Notes to the Financial Statements

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### 61. Irregular expenditure (continued)

Subsistence & Traveling - During the audit of the No disciplinary actions have been taken. The 2014/15 financial period, it was found by the office transactions will be presented to Council for of the Auditor General that subsistence and investigation, travelling allowances should be pre-approved before travelling for business purposes or other matters relating to the Municipality. The Municipality's procedures throughout the 2014-15 and 2015-16 financial period was to submit S&T claims to the Head of departments that was then approved for payment. Pre-authorisation is done verbally for travelling and no proof of such authorisation can therefore be obtained. Therefore post authorisation has been found to be non-effective by the office of the auditor general and therefore qualifies as Irregular expenditures.

430 853

**23 984 768**

### Deviated expenditures

### 62. Additional disclosure in terms of Municipal Finance Management Act

#### Audit fees

Opening balance	8 171 145	6 599 287
Current year subscription / fee	3 072 609	3 470 812
Amount paid - current year	-	(50 000)
Amount paid - previous years	(1 343 155)	(1 794 208)
Reversal	-	(54 746)
<b>Closing Balance</b>	<b>9 900 599</b>	<b>8 171 145</b>

#### PAYE and UIF

Opening balance	(193)	38 345
Current year subscription / fee	2 772 283	2 778 032
Amount paid - current year	(2 772 283)	(2 778 032)
Amount paid - previous years	-	(38 538)
<b>Closing Balance</b>	<b>(193)</b>	<b>(193)</b>

#### Pension and Medical Aid Deductions

Opening balance	2 028	-
Current year subscription / fee	3 248 274	2 936 048
Amount paid - current year	(3 275 452)	(2 934 020)
	<b>(25 150)</b>	<b>2 028</b>

# Thembelihle Local Municipality

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## Notes to the Financial Statements

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### 62. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### VAT

VAT receivable	4 668 324	-
VAT payable	-	111 760
	<b>4 668 324</b>	<b>111 760</b>

VAT output payables and VAT input receivables are shown in note 17.

Not all VAT returns have been submitted by the due date throughout the year.

#### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2016:

30 June 2016	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor Jonas DA	4 995	-	4 995
Councillor Humphreys MA	-	91 794	91 794
Councillor Madikana SE	354	-	354
Councillor Louw P	1 269	84 288	85 557
Councillor De Bruin E	111	41 766	41 877
	<b>6 729</b>	<b>217 848</b>	<b>224 577</b>

30 June 2015	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor Jonas DA	1 675	43 329	45 004
Councillor Humphreys MA	1 230	112 014	113 244
Councillor Madikana SE	45	-	45
Councillor Louw P	319	-	319
	<b>3 269</b>	<b>155 343</b>	<b>158 612</b>

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

30 June 2016	Highest outstanding amount	Aging (in days)
Councillor Humphreys MA	91 794	90
Councillor Louw P	84 288	180
Councillor De Bruin E	41 766	90
	<b>217 848</b>	<b>360</b>

30 June 2015	Highest outstanding amount	Aging (in days)
Councillor Jonas DA	43 329	90
Councillor B	112 014	90
	<b>155 343</b>	<b>180</b>

# Thembelihle Local Municipality

(Registration number NC076)

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand

### 63. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	4 711 304	5 277 417
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Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

### 64. Distribution Losses - Water

Water units available for sale (KI)	1 534 971	1 286 265
Water units sold (KI)	(673 098)	(541 937)
Units lost (KI)	862 174	744 327
Average cost per unit (R)	8	7
Total loss in Rand value	6 515 929	5 314 493

Distribution losses relates to unaccounted water distributed. The foregoing costs, which represents 56% (2015: 58%) of the water purchases for the year, has been included in bulk purchases. The average cost per unit was R 7.56 (2015: R 7.14). The level of the distribution losses are not within the acceptable norms.

### 65. Distribution Losses - Electricity

Units bought (kwh)	9 942 994	9 903 629
Units sold (kwh)	(6 410 156)	(6 070 724)
Units lost (kwh)	3 532 838	3 832 905
Highest Rate (R)	2	2
Total loss in Rand Value	6 698 205	6 477 610

Distribution losses relates to unaccounted electricity distributions. This cost mainly arises from, inter alia, illegal connections to the electricity network and bridging of meters by consumers. The foregoing costs, which represented 36% (2015: 39%) of the electricity purchases for the year, has been included in bulk purchases. The highest rate was R 1.90 (2015: R 1.69). The level of the distribution losses are not within the acceptable norms.

Thembelihle Local Municipality  
Appendix A

Un-audited Schedule of external loans as at 30 June 2016

Loan Number	Redeemable	Balance at 30 June 2015	Received during the period	Redeemed written off during the period	Balance at 30 June 2016	Carrying Value of Property, Plant & Equip	Other Costs in accordance with the MFMA
		Rand	Rand	Rand	Rand	Rand	Rand
Development Bank of South Africa							
JBSA Loan 1	March 2024	1 775 659	115 458	1 689 360	201 757	-	-
JBSA Loan 2	March 2024	3 421 825	195 765	3 673 387	(55 797)	-	-
JBSA Loan 3	Redeemed	(57 454)	10 828	18 486	(65 112)	-	-
JBSA Loan 4	Redeemed	3 331	10 828	10 588	3 571	-	-
JBSA Loan		5 143 361	1 215 323	922 331	5 436 353	-	-
		10 286 722	1 548 202	6 314 152	5 520 772	-	-
Lease liability							
Leases	All Finance Leases	705 101	-	674 495	30 606	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		705 101	-	674 495	30 606	-	-
Total external loans		10 991 823	1 548 202	6 988 647	5 551 378	-	-

**Thembelihle Local Municipality**  
**Thembelihle Local Municipality**  
**Appendix B**

**Analysis of property, plant and equipment as at 30 June 2016**  
**Cost/Revaluation**      **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Closing Balance Rand	Opening Balance Rand	Additions Rand	Disposals Rand	Depreciation Rand	Closing Balance Rand	Carrying value Rand
<b>Land and buildings</b>												
Land (Separate for AFS purposes)	7 227 066	-	-	-	(33 393)	7 193 673	-	-	-	-	-	7 193 673
Buildings (Separate for AFS purposes)	5 642 622	-	-	-	-	5 642 622	(2 878 046)	-	-	(188 558)	(3 066 604)	2 576 018
	<b>12 869 688</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(33 393)</b>	<b>12 856 295</b>	<b>(2 878 046)</b>	<b>-</b>	<b>-</b>	<b>(188 558)</b>	<b>(3 066 604)</b>	<b>9 789 691</b>
<b>Infrastructure</b>												
Electricity Buildings & Facilities	8 225 275	731 229	-	-	-	8 956 504	(2 925 541)	-	-	(280 990)	(3 206 531)	5 749 973
Electricity Poles	2 282 490	-	-	-	-	2 282 490	(1 154 234)	-	-	(64 887)	(1 219 121)	1 073 369
Electricity Mini Subs	4 731 674	-	-	-	-	4 731 674	(1 237 384)	-	-	(115 951)	(1 353 345)	3 378 329
Electricity Transformers	7 235 860	234 446	-	-	-	7 470 306	(1 355 905)	-	-	(170 038)	(1 525 943)	5 944 363
Other Buildings & Facilities	7 673 916	-	-	-	-	7 673 916	(4 058 628)	-	-	(227 324)	(4 325 950)	3 347 966
Roads Stormwater	102 824	-	-	-	-	102 824	(55 375)	-	-	(2 829)	(88 204)	44 620
Road Structures	48 655 695	-	-	-	-	48 655 695	(19 581 054)	-	-	(1 262 212)	(20 843 266)	27 702 429
Traffic Management	701 178	-	-	-	-	701 178	(383 573)	-	-	(19 960)	(403 433)	287 745
Bridges	3 175 851	-	-	-	-	3 175 851	(1 746 718)	-	-	(92 116)	(1 838 836)	1 337 015
Roads - Buildings & Facilities	6 795 105	-	-	-	-	6 795 105	(358 805)	-	-	(189 527)	(648 332)	6 246 773
Waste Water Treatment	45 344 113	-	-	-	-	45 344 113	(13 044 029)	-	-	(1 094 256)	(14 138 285)	31 205 828
Collection / Retention Network	3 285 246	-	-	-	-	3 285 246	(1 394 488)	-	-	(100 197)	(1 484 685)	1 770 551
Sewerholes	45 210	-	-	-	-	45 210	(23 551)	-	-	(1 292)	(24 843)	20 367
Distribution Reticulation Network	35 954 140	-	-	-	-	35 954 140	(19 774 777)	-	-	(1 042 878)	(20 817 655)	15 136 465
Water Pump Station & Buildings	98 937 669	-	-	9 607 364	-	108 545 033	(20 387 406)	-	-	(2 558 673)	(22 946 078)	85 598 954
Work in Progress	24 626 613	17 071 422	-	(10 573 039)	-	31 124 996	-	-	-	-	-	31 124 996
	<b>287 762 869</b>	<b>18 037 097</b>	<b>-</b>	<b>(965 676)</b>	<b>-</b>	<b>314 834 291</b>	<b>(87 631 486)</b>	<b>-</b>	<b>-</b>	<b>(7 223 032)</b>	<b>(94 854 618)</b>	<b>219 979 763</b>

**Thembelihle Local Municipality**  
**Thembelihle Local Municipality**  
**Appendix B**

**Analysis of property, plant and equipment as at 30 June 2016**  
**Cost/Revaluation** **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Closing Balance Rand	Opening Balance Rand	Additions Rand	Disposals Rand	Depreciation Rand	Closing Balance Rand	Carrying value Rand
<b>Fixed assets</b>												
Office Equipment	2 342 049	-	(8 870)	-	-	2 333 179	(1 363 128)	-	5 314	(378 091)	(1 735 905)	597 274
	<b>2 342 049</b>	<b>-</b>	<b>(8 870)</b>	<b>-</b>	<b>-</b>	<b>2 333 179</b>	<b>(1 363 128)</b>	<b>-</b>	<b>5 314</b>	<b>(378 091)</b>	<b>(1 735 905)</b>	<b>597 274</b>
<b>Specialised vehicles</b>												
Other assets												
General vehicles	1 089 700	-	-	-	-	1 089 700	(268 322)	-	-	(19 454)	(287 776)	801 924
Plant & equipment	918 697	135 835	-	-	-	1 054 532	(336 702)	-	-	(63 150)	(399 852)	654 680
Furniture & Fittings	969 457	5 210	-	-	-	974 667	(397 451)	-	-	(31 235)	(428 686)	545 981
Office Equipment	2 072 391	147 986	(59 053)	-	-	2 161 334	(737 641)	-	39 684	(119 115)	(817 292)	1 344 042
Emergency Equipment	305 664	-	-	-	-	305 664	(149 115)	-	-	(6 632)	(155 747)	149 937
	<b>6 356 929</b>	<b>289 041</b>	<b>(59 053)</b>	<b>-</b>	<b>-</b>	<b>6 585 917</b>	<b>(1 889 431)</b>	<b>-</b>	<b>39 684</b>	<b>(239 586)</b>	<b>(2 089 353)</b>	<b>3 496 564</b>

**Thembelihle Local Municipality**  
**Thembelihle Local Municipality**  
**Appendix B**

**Analysis of property, plant and equipment as at 30 June 2016**  
**Cost/Revaluation** **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Closing Balance Rand	Opening Balance Rand	Additions Rand	Disposals Rand	Depreciation Rand	Closing Balance Rand	Carrying value Rand
<b>Total property plant and equipment</b>												
and and buildings	12 859 688	18 037 097	-	-	(33 393)	12 856 295	(2 878 046)	-	-	-	(3 066 804)	9 789 691
Infrastructure	297 762 859	-	-	(965 675)	-	314 834 281	(87 631 486)	-	-	(188 558)	(94 854 618)	219 979 763
Leased assets	2 342 049	-	(8 870)	-	-	2 333 179	(1 363 128)	-	-	(378 091)	(1 735 905)	597 274
Other assets	5 355 929	289 041	(59 053)	-	-	5 585 917	(1 889 431)	-	39 664	(239 586)	(2 089 353)	3 496 564
	318 330 825	18 326 138	(67 923)	(965 675)	(33 393)	335 599 672	(93 762 091)	-	44 978	(9 029 267)	(101 746 380)	233 843 292
<b>Agricultural/Biological assets</b>												
Intangible assets												
Computers - software & programming	500 300	63 840	(3 052)	-	-	561 088	(181 766)	-	2 457	(112 811)	(292 120)	268 968
	500 300	63 840	(3 052)	-	-	561 088	(181 766)	-	2 457	(112 811)	(292 120)	268 968
<b>Investment properties</b>												
Investment property	7 729 100	-	-	-	127 233	7 856 333	-	-	-	-	-	7 856 333
	7 729 100	-	-	-	127 233	7 856 333	-	-	-	-	-	7 856 333
<b>Total</b>												
and and buildings	12 859 688	18 037 097	-	-	(33 393)	12 856 295	(2 878 046)	-	-	-	(3 066 804)	9 789 691
Infrastructure	297 762 859	-	-	(965 675)	-	314 834 281	(87 631 486)	-	-	(188 558)	(94 854 618)	219 979 763
Leased assets	2 342 049	-	(8 870)	-	-	2 333 179	(1 363 128)	-	-	(378 091)	(1 735 905)	597 274
Other assets	5 355 929	289 041	(59 053)	-	-	5 585 917	(1 889 431)	-	39 664	(239 586)	(2 089 353)	3 496 564
Intangible assets	500 300	63 840	(3 052)	-	-	561 088	(181 766)	-	2 457	(112 811)	(292 120)	268 968
Investment properties	7 729 100	-	-	-	127 233	7 856 333	-	-	-	-	-	7 856 333
	326 559 925	18 389 978	(70 975)	(965 675)	93 840	344 007 093	(93 843 857)	-	47 435	(9 142 078)	(102 038 500)	241 968 693

**Thembelihle Local Municipality**

**Analysis of property, plant and equipment as at 30 June 2015**

**Cost/Revaluation**

**Accumulated depreciation**



## Thembelihle Local Municipality

## Thembelihle Local Municipality

## Appendix B

### Analysis of property, plant and equipment as at 30 June 2015

[illegible]

## Thembelihle Local Municipality Thembelihle Local Municipality Appendix B

**Analysis of property, plant and equipment as at 30 June 2015**

[illegible]

# Thembelihle Local Municipality Appendix C

## Un-audited Segmental analysis of property, plant and equipment as at 30 June 2015 Cost/Revaluation Accumulated Depreciation

	Opening Balance Rand	Additions Rand	Disposals Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Depreciation Rand	Closing Balance Rand	Carrying Value Rand
<b>Municipality</b>	<b>623 912</b>	<b>-</b>	<b>(17 419)</b>	<b>606 493</b>	<b>(356 271)</b>	<b>12 787</b>	<b>(79 177)</b>	<b>(422 661)</b>	<b>183 832</b>
Executive & Council/Mayor and Council	3 468 936	270 417	(50 504)	3 688 849	(1 573 698)	32 181	(366 331)	(1 907 838)	1 781 011
Finance & Admin/Finance	10 500 762	25 224	-	10 525 986	(5 103 014)	-	(343 989)	(5 447 003)	4 878 983
Planning and Development	18 371 915	289 415	(33 393)	18 627 937	(3 059 789)	-	(209 304)	(3 308 093)	15 328 844
Comm. & Social/Libraries and archives	48 509 358	-	-	48 509 358	(14 438 526)	-	(1 194 453)	(15 632 979)	32 876 379
Road Transport/Roads	62 133 159	11 814 737	-	73 947 896	(25 482 068)	-	(1 568 169)	(27 050 237)	46 897 659
Water/Water Distribution	152 302 443	3 968 736	-	156 271 179	(40 249 522)	-	(3 631 932)	(43 881 464)	112 389 725
Electricity/Electricity Distribution	22 520 038	981 933	-	23 501 971	(6 688 401)	-	(635 911)	(7 324 312)	16 177 659
	<b>318 330 523</b>	<b>17 360 482</b>	<b>(101 316)</b>	<b>335 589 689</b>	<b>(96 991 289)</b>	<b>44 978</b>	<b>(8 029 266)</b>	<b>(104 975 577)</b>	<b>230 614 092</b>
	<b>318 330 523</b>	<b>17 360 482</b>	<b>(101 316)</b>	<b>335 589 689</b>	<b>(96 991 289)</b>	<b>44 978</b>	<b>(8 029 266)</b>	<b>(104 975 577)</b>	<b>230 614 092</b>

**Thembelihle Local Municipality**  
**Un-audited Appendix D**

**Segmental Statement of Financial Performance for the year ended**  
**Prior Year** **Current Year**

<b>Actual Income Rand</b>	<b>Actual Expenditure Rand</b>	<b>Surplus /(Deficit) Rand</b>		<b>Actual Income Rand</b>	<b>Actual Expenditure Rand</b>	<b>Surplus /(Deficit) Rand</b>
<b>Municipality</b>						
-	-	-	- Executive & Council/Mayor and Council	17 595 711	7 301 161	10 294 550
-	-	-	- Finance & Admin/Finance	5 966 857	18 242 253	(12 275 396)
-	-	-	- Planning and Development/Economic Development/Plan	17 587 121	11 613 555	5 973 566
-	-	-	- Health/Clinics	1 915 605	7 682 965	(5 767 360)
-	-	-	- Comm. & Social/Libraries and archives	1 319 507	1 252 797	66 710
-	-	-	- Public Safety/Police	-	17 113	(17 113)
-	-	-	- Waste Water Management/Sewerage	2 149 927	2 008 905	141 022
-	-	-	- Road Transport/Roads	5 180 243	1 546 729	3 633 514
-	-	-	- Water/Water Distribution	8 816 602	7 081 995	1 734 607
-	-	-	- Electricity /Electricity Distribution	10 278 671	10 803 524	(524 853)
-	-	-	- Other/Air Transport	1 236 081	1 455 432	(219 351)
-	-	-		<b>72 046 325</b>	<b>69 006 429</b>	<b>3 039 896</b>
<b>Municipal Owned Entities Other charges</b>						
-	-	-	- Municipality	72 046 325	69 006 429	3 039 896
-	-	-	- <b>Total</b>	<b>72 046 325</b>	<b>69 006 429</b>	<b>3 039 896</b>

**Thembelihle Local Municipality**  
**Appendix E(1)**

**Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2015**

	Current year 2015 Act. Bal.	Current year 2015 Adjusted budget Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
<b>Revenue</b>					
Property rates	2 598 663	4 060 000	(1 461 337)	(36.0)	Expected errors to be shown on the rates reconciliation that did not materialise.
Service charges	19 939 731	18 491 000	1 448 731	7.8	Load shedding had an effect on the Electricity billed for the year that was not considered in the budget.
Rental of facilities and equipment	834 607	515 000	319 607	62.1	When the budget was compiled an expected increase was taken into account that did not materialised
Interest received (trading)	179 674	904 000	(724 326)	(80.1)	More debtors receipts were obtained which meant less interest charges.
Licences and permits	213 078	184 000	29 078	15.8	
Government Grants	45 592 233	34 269 000	11 323 233	33.0	Grants received were more than expected.
Administration and management fees received	1	(175)	176	(100.6)	
Fines & Penalties	3 879 093	4 512 000	(632 907)	(14.0)	Service provider for Traffic fines was appointed later than expected.
Commissions received	4 894	352 300	(347 406)	(98.6)	
Discount received	1 343 155	-	1 343 155	-	
Other income - (rollup)	240 098	486 000	(245 902)	(50.6)	Unexpected increase in other services required.
Connection fees	84 055	(2 812)	86 867	089.2)	
Interest received - investment	368 613	301 000	67 613	22.5	Larger investments were used as what was expected.
	<b>75 277 895</b>	<b>64 071 313</b>	<b>11 206 582</b>	<b>17.5</b>	
<b>Expenses</b>					
Personnel	(23 279 476)	(20 207 000)	(3 072 476)	15.2	
Remuneration of councillors	(2 524 362)	(2 619 000)	94 638	(3.6)	
Administration	(26 094)	52 189	(78 283)	(150.0)	
Depreciation	(8 029 266)	(10 107 000)	2 077 734	(20.6)	The asset register was completely re-stated after the budget was done.
Amortisation	(112 811)	-	(112 811)	-	
Finance costs	(5 544 196)	(645 000)	(4 899 196)	759.6	Unexpected increase in the landfill site rehabilitation provision
Bad debts written off	(1 515 802)	(8 749 000)	7 233 198	(82.7)	More debt were collected than expected.
Repairs and maintenance - General	(562 518)	(796 000)	233 482	(29.3)	Budget was based on cashflow payments towards repairs & Maintenance. Actuals include creditors transactions.
Bulk purchases	(11 805 195)	(9 378 000)	(2 427 195)	25.9	Budget was based on cashflow payments towards repairs & Maintenance. Actuals include creditors transactions.
Contracted Services	(50 731)	(161 000)	110 269	(68.5)	Budget was based on contracts to start on January 2015, but only started in May 2015.
General Expenses	(17 664 317)	(12 318 000)	(5 346 317)	43.4	
Operating leases	(116 932)	-	(116 932)	-	
	<b>(71 231 700)</b>	<b>(64 927 811)</b>	<b>(6 303 889)</b>	<b>9.7</b>	
<b>Other revenue and costs</b>					
Gain or loss on disposal of assets and liabilities	(235 163)	-	(235 163)	-	
Fair value adjustments	127 233	-	127 233	-	
Actuarial Gains / Losses	(85 568)	-	(85 568)	-	
	<b>(193 498)</b>	<b>-</b>	<b>(193 498)</b>	<b>-</b>	
<b>Net surplus/ (deficit) for the year</b>	<b>3 852 697</b>	<b>(856 498)</b>	<b>4 709 195</b>	<b>(549.8)</b>	

**Thembelihle Local Municipality**  
**Appendix E(2)**

**Budget Analysis of Capital Expenditure as at 30 June  
2015**

	<b>Additions</b>	<b>Revised</b>	<b>Variance</b>	<b>Variance</b>	<b>Explanation of significant</b>
	<b>Rand</b>	<b>Budget</b>	<b>Rand</b>	<b>%</b>	<b>variances from budget</b>
		<b>Rand</b>			
<b>Municipality</b>					
Budget & Treasury	2 252	70 000	67 748	97	
Planning and	7 268 100	7 268 000	(100)	-	
Development/Economic					
Development/Plan					
Water/Water Distribution	13 272 513	5 399 000	(7 873 513)	(146)	Unexpected increase in capital grants.
	<b>20 542 865</b>	<b>12 737 000</b>	<b>(7 805 865)</b>	<b>(61)</b>	
<b>Municipal Owned Entities</b>					
<b>Other charges</b>					

embellish Local Municipality  
 Appendix F  
 Closures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts				Quarterly Expenditure				Grants and Subsidies delayed / withheld				Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance
		7 782	6 225	3 169	-	6 623	-	5 579	4 533	-	2 968	-	-			
Equitable Share	Treasury	-	4 118	5 171	-	153	4 111	4 635	3 819	4 022	(2 804)	-	-	Refund of Unspent MIG	Yes	
RBIG	Treasury	2 200	1 336	4 000	-	-	294	51	2 477	3 671	-	-	-	Refunded from Equitable Share	Yes	
RMIG	Treasury	1 875	-	-	-	506	323	196	533	242	-	-	-		Yes	
MSIG	Treasury	930	-	-	-	-	41	351	205	338	-	-	-		Yes	
MPWP	Treasury	400	300	300	-	-	29	376	202	214	-	-	-		Yes	
NEP	Treasury	-	-	-	-	-	-	-	-	-	(164)	-	-	Refunded from Equitable Share	Yes	
Library	Province	-	-	1 184	-	108	134	101	84	-	-	-	-		Yes	
		13 187	11 979	13 824	-	7 390	4 932	11 289	11 853	8 487	-	-	-			

e. A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.